Chapter – 7

CONCLUSIONS AND SUGGESTIONS

Chapter Contents

CHAPTER 7
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The basic nature of human race is to achieve growth and development at the fastest speed possible. For this reason, the inorganic way of growth *i.e.* the strategic alliances are deeply rooted in the history of mankind. In India, starting from the era of Ramayana and Mahabharata, many kings have relied on strategic alliances to expand their kingdom. In the present era also, to achieve growth and competitive advantage, the inorganic way of corporate restructuring is used more and more by the corporate enterprises. Two important ways of corporate restructuring *i.e.* the merger and acquisition (M&A) in India have passed through many waves over the years. In spite of the continuous debate on the outcomes of it, the numbers of M&A deals are happening day in and day out in the country.

The present study analyses the effect of acquisition on the financial performance of the acquirer company in long term as well as short term. The effect of acquisition on long term performance is examined through various financial ratios and effect on short term is studied through event study methodology. This chapter presents major findings based on empirical analysis, derives conclusions and provides suggestions based on this study for future studies. For the purpose of systematic presentation, the chapter is divided into nine sections. Section 7.1 gives a brief note on growth of M&A in India. Section 7.2 presents finding and conclusion of effect of acquisition on long term performance of companies. Section 7.3 presents results of effect of acquisition on long term performance of companies. Section 7.4 summarises finding and conclusion of effect of acquisition on short term performance of companies (Event Study Methodology). Section 7.5 presents results of event study methodology. Section 7.6 gives suggestion based on the findings of the study. Section 7.7 presents significance of the study. Section 7.8 provides limitation of study and section 7.9 gives suggestions for further research.

7.1 GROWTH OF M&A IN INDIA: A BRIEF NOTE

The M&As in India has passed through many ups and downs over the past century. The Indian market is very attractive for M&A because of its large domestic market and the capacity of the companies to accept innovation and change. In the year 1921, Bank of Calcutta, Bank of Bombay and Bank of Madras were amalgamated to form the Imperial Bank of India[1]. World War II (1939-1945) has also played a major role in Indian economy, because it has changed many political situations in India. In 1956 around 200 insurance companies and provident societies were amalgamated to form Life Insurance Corporation of India.

The pace of M&A was very slow before 1990s *i.e.* pre liberalization era. The real momentum of M&As in India came from the economic reforms of Liberalisation, Privatisation and Globaliastion introduced by the Government in 1991. The economic reforms through the relaxation of controls and regulations on production, trade and investment were aimed at increasing competition, improving efficiency and growth. But this was tough time for Indian corporates and the rule of survival of fittest prevail. High quality and ample product range and services offered by foreign competitors, forced Indian companies to plan rigorous corporate restructuring strategies for their survival. The year 2000-01 showed consolidation in the cement industry and the subsequent emergence of developments suggesting reduced competition. In 2002 and 2003 Indian companies focused more on cross border acquisitions. In 2004 Telecom clearly dominated the M&A landscape in terms of value.

All this changed in 2005, with beginning of an era of mega mergers, when Hutchison Essar decided to buy out BPL Mobile and opened the floodgates to cellular consolidation. The year 2007 turned a remarkable year for Indian M&A, both at home and abroad. The presence of Indian companies was felt globally. Domestically also year 2007 was the record year for M&A deal activity. The global slowdown hit the year 2008 badly. The value of international investment dropped by over one third in India and global M&A activity dropped by 31%[2]. The market started reviving from depression towards the end of 2009, M&A again increased the pace in year 2010. Despite of effect of global crisis, rising inflation and interest rates, weakening rupee and a volatile stock market, 2011 showed good number of M&A deals. After a slow start to the year 2014, Indian companies stuck good deals because of expectation of economic revival after union election. Technology firms attracted an unprecedented level of activity in 2015 with 80 deals compared to just 45 in 2014[3].

Thus, it can be said that the M&A is an integral part of Indian industrial growth. Though M&A are important strategies for corporate restructuring, at global front the research on M&As has not been able to provide conclusive evidence on whether they enhance efficiency or destroy wealth. Thus, there is an ongoing global debate on the effects of M&As on firms. In India also, the research on M&A is limited to certain sectors or based on case studies. None of the studies have integrated all the important issues pertaining to the M&A in one study to have a holistic approach. In addition to that, majority of the studies are based on mergers, limited numbers of studies are available in the area of acquisition. The present study analysed the effect of acquisition on financial performance of acquirer companies in long run as well as short run. The next section presents summary of findings and conclusions of effect of acquisition on long term performance of acquirer companies.

7.2 FINDING AND CONCLUSION OF THE EFFECT OF ACQUISITION ON FINANCIAL PERFORMANCE OF THE SAMPLE ACQUIRER COMPANIES IN LONG RUN

This section summarises the findings and conclusion of effect of acquisition on financial performance of the acquirer companies in the long run. It would be worthwhile to summarize the research methodology including brief profile of the sample and performance evaluation measures, before presenting findings and conclusions.

BRIEF PROFILE OF THE SAMPLE

All the companies which have undergone merger, acquisition and private equity deals in the calendar year 2007 and 2008 are taken as population. Out of the total, inbound deals, outbound deals, PE deals and merger deals are eliminated. From the remaining, the companies which are listed are segregated and the financial data availability of listed companies is checked. Based on that 43 companies which have undergone domestic deals in 2007 and 23 companies which have undergone domestic deals in 2008 are selected. Thus, total 66 companies are selected as sample for the present study. The target companies are not included in the present study because majority of the target companies are non listed. To study the effect of acquisition on financial performance of the acquirer companies in long run, the analysis is carried out in two stages: Overall analysis and Sectoral analysis. For the purpose of sectoral analysis, the 66 acquirer companies are divided in to 9 sectors based on GICS[4].

✸ PERFORMANCE EVALUATION MEASURES

For the purpose of long term analysis, Ratio Analysis is used as basic financial analytical tool. Out of various ratios, 16 ratios are selected for analysis in the present study, based on the frequency of their use and applicability in various researches. The due care is taken that the 16 ratios together represents liquidity, leverage, activity, profitability and valuation position of the firm. In the present study, three liquidity ratios, two leverage ratios, two activity ratios, seven profitability ratios and two valuation ratios are analysed. To begin with, to analyse the difference between pre and post acquisition situation of acquirer firms, for selected 16 ratios, (i) Mean, (ii) Range, (iii) Standard Deviation and (iv) Coefficient of Variation were computed. Thereafter, to examine the significance of changes in post acquisition performance as compared that of to pre acquisition, paired t-test is applied. To examine whether acquisition of particular sector has some special effect, the similar analysis is also carried out sector wise by dividing total sample in 9 sectors as per classification given by GICS[4].

HYPOTHESES

The researcher has attempted to test the following hypotheses pertaining to analyzing the effect of acquisition on the sample acquirer companies.

H_{01}: There is no significant difference in liquidity performance of the selected acquirer firms before and after acquisition.

H_{02}: There is no significant difference in degree of leverage of the selected acquirer firms before and after acquisition.

H_{03}: There is no significant difference in activity ratios of the selected acquirer firms before and after acquisition.

H_{04}: There is no significant difference in profitability position of the selected acquirer firms before and after acquisition.

H_{05}: There is no significant difference in Earning per Share (EPS) of the selected acquirer firms before and after acquisition.

H_{06}: There is no significant difference in Price Earning ratio (P/E) of the selected acquirer firms before and after acquisition.

7.2.1 RESULTS OF THE EFFECT OF ACQUISITION ON THE FINANCIAL PERFORMANCE OF THE SAMPLE ACQUIRER COMPANIES IN LONG RUN

The effect of acquisition on the financial performance of the acquirer companies in long run is studied in two parts: (i) Overall Analysis and (ii) Sectoral Analysis.

This section presents empirical results of overall and sectoral analysis:

7.2.1.1 EMPIRICAL RESULTS OF OVERALL ANALYSIS

- **Liquidity Ratios:** Three ratios *viz* CR, QR and NWC/SR are analysed.
  In the category of **Liquidity Ratios**, the first ratio analysed is the **CR.** The pre acquisition mean of CR is 1.57 and the post acquisition mean is 1.26. To examine whether the acquisition has affected CR of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of CR. The computed value of paired t is 1.653. On comparing calculated t value with table value, it was found that there is no significant difference between aggregate mean values of CR for pre and post acquisition period, when all 66 companies are taken together. These results are in conformity with some of the previous studies.[5,6,7,8,9,10]

  The second ratio under liquidity category is **QR.** The post acquisition mean (0.93) of QR is lower than pre acquisition mean (1.00). To examine whether the acquisition has affected QR of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of QR. The computed value of paired t is 0.667. On comparing the calculated t value with the Table value, it was found that there is no significant difference between aggregate mean values of QR for pre and post acquisition period. Similar results are obtained by some previous researches. [5,6,7,8,9,10]

The third ratio under this category is **NWC/SR.** The pre acquisition mean (1.01) of NWC/SR is higher than post acquisition mean (0.67). To examine whether the acquisition has affected NWC/SR of the acquirer firms significantly or not, paired t-test is applied on the 65 pairs of pre and post acquisition mean values of NWC/SR. The computed value of paired t is 0.969. On comparing the computed value of t with the table value, it was found that there is no significant difference between aggregate mean values of NWC/SR for pre and post acquisition period. This results are in conformity with some earlier studies[11,22].

From the results of all three liquidity ratios, it can be concluded that the acquisition does not affect significantly to the overall liquidity position of the acquirer firm and therefore,

H_{01} *: There is no significant difference in liquidity performance of the selected acquirer firms before and after acquisition*

stands **accepted.**

- **Leverage Ratios:** In this category two ratios *viz.* D-ER and ICR are selected.

The pre acquisition mean of **D-ER** (1.58) is higher than post acquisition mean (1.19). To examine whether the acquisition has affected degree of leverage of the acquirer firms significantly or not, paired t-test is applied on the 63 pairs of pre and post acquisition mean values of D-ER. The computed value of paired t is 0.956. On comparing the calculated t value with the table value, it was observed that there is no significant difference between aggregate mean values of D-ER for pre and post acquisition period. Similar results are obtained by some of the previous researches. [6,7,8,10,11,12]

The second ratio, which is analysed in leverage category is **ICR.** The pre acquisition mean is 11.31 and post acquisition mean is 15.09. To examine whether the acquisition has affected ICR of the acquirer firms significantly or not, paired t-test is applied on the 62 pairs of pre and post acquisition mean values of ICR. The computed value of paired t is -0.851. On comparing the calculated t value with the table value, it was observed that there is no significant difference between aggregate mean values of ICR for pre and post acquisition period. This result is in conformity with some of the previous studies.[7]

Thus, it can be concluded that the leverage ratio and coverage ratio do not change significantly after the acquisition for the acquirer companies and therefore,

H_{02} *: There is no significant difference in Degree of Leverage of the selected acquirer firms before and after acquisition*

stands **accepted.**

- **Activity Ratios:** To evaluate the efficiency with which the firm manages and utilizes its assets, two activity ratios ITR and FATR are calculated and analysed.

For the first ratio *i.e.* **ITR,** the pre acquisition mean is 19.26 and post acquisition mean is 20.03. To examine whether the acquisition has affected ITR of the acquirer firms significantly or not, paired t-test is applied on the 50 pairs of pre and post acquisition mean values of ITR. The computed value of paired t is -0.353. On comparing the calculated value of t with the table value, it was observed that there is no significant difference between aggregate mean values of ITR for pre and post acquisition period. This result is on conformity with the study of Ransariya S. (2010)[7].

Another ratio in activity category is **FATR**. The pre acquisition mean of the ratio is 5.34 and post acquisition mean is 5.57. To examine whether the acquisition has affected FATR of the acquirer firms significantly or not, paired t-test is applied on the 63 pairs of pre and post acquisition mean values of FATR. The computed value of paired t is -0.502. On comparing the calculated t value with the table value, it was found that there is no significant difference between aggregate mean values of FATR for pre and post acquisition period. Similar result is obtained by Ransariya S. (2010)[7].

Therefore, it can be concluded that the selected two Activity ratios do not change significantly after acquisition for the acquirer companies. Therefore,

***H_{03}* : There is no significant difference in Activity Ratios of the selected acquirer**

stands **accepted.**

- **Profitability Ratios:** In every business the most important measurement is profit. To study the effect of acquisition on profitability position of the firm, seven **Profitability Ratios** are analysed. The first three ratios in this category are profit margin ratios.

The first profit margin ratio is GPM. In **GPM,** the post acquisition mean (24.34) is higher than pre acquisition mean (19.87). To examine whether the acquisition has affected GPM of the acquirer firms significantly or not, paired t-test is applied on the 65 pairs of pre and post acquisition mean values of GPM. The computed value of paired t is -0.173. On comparing the calculated t value with the table value, it was observed that there is no significant difference between aggregate mean values of GPM for pre and post acquisition period. This result is in conformity with some of the previous studies.[7,9,13,14]

The next ratio is **OPM.** The pre acquisition mean of the ratio is 15.60 and post acquisition mean is 19.88. To examine whether the acquisition has affected OPM of the acquirer firms significantly or not, paired t-test is applied on the 64 pairs of pre and post acquisition mean values of OPM. The computed value of paired t is -0.460. On comparing the calculated t value with the table value, it was observed that there is no significant difference between aggregate mean values of OPM for pre and post acquisition period. The results are similar to some of the previous studies.[7,9,11,14,15]

The third margin ratio is **NPM.** The pre acquisition mean (6.04) is lower than the post acquisition mean (7.31). To examine whether the acquisition has affected profitability ratios of the acquirer firms or not, paired t-test is applied on the 64 pairs of pre and post acquisition mean values of NPM. The computed value of paired t is -0.606. On comparing the calculated t value with the table value, it was found that there is no significant difference between aggregate mean values of NPM for pre and post acquisition period. The similar results are reported by the previous studies.[7,8,9,15]

The next four ratios in profitability category are rate of return ratios. The first among this is **PBDIT/TA.** The pre acquisition mean of the ratio is 15.47 and post acquisition mean is 12.98. To examine whether the acquisition has affected PBDIT/TA of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of PBDIT/TA. The computed value of paired t is 2.681. On comparing the calculated t value with the table value, it was found that there is a significant difference between aggregate mean values of PBDIT/TA for pre and post acquisition period at 1 percent level of significance.

The next ratio is **ROCE.** The pre acquisition mean of ROCE is 10.51 and post acquisition mean is 8.18. To examine whether the acquisition has affected ROCE of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of ROCE. The computed value of paired t is 2.060. On comparing the calculated t value with the table value, it was found that there is a significant difference between aggregate mean values of ROCE for pre and post acquisition period at 5 percent level of significance. Similar results are reported by some of the previous studies.[6,7,16,17]

Another rate of return ratio is **ROI.** The pre acquisition mean (7.55) is higher than post acquisition mean (6.01). To examine whether the acquisition has affected ROI of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of ROI. The computed value of paired t is 2.481. On comparing the calculated t value with the table value, it was found that there is significant difference between aggregate mean values of ROI for pre and post acquisition period at 5 percent level of significance. This result match with some of the previous studies.[5,18,19]

The last ratio in profitability category is **RONW.** The pre acquisition mean of the ratio is 15.69 and the post acquisition mean is 11.77. To examine whether the acquisition has affected RONW of the acquirer firms significantly or not, paired t-test is applied on the 66 pairs of pre and post acquisition mean values of RONW. The computed value of paired t is 1.780. On comparing the calculated t value with the table value, it was found that there is significant difference between aggregate mean values of RONW for pre and post acquisition period at 10 percent level of significance. This result is in conformity with some of the previous studies.[15,16,18,20]

From the results of all 7 ratios of profitability, it can be concluded that the out of selected seven profitability ratios three profit margin ratios *viz.* GPM,OPM and NPM do not change significantly after acquisition for the acquirer companies and remaining four rate of return ratios *viz.* PBDIT/TA, ROCE, ROI and RONW changed significantly after acquisition for the acquirer companies. Therefore,

> ***H_{04}*** *: There is no significant difference in profitability position of the selected acquirer firms before and after acquisition*

stands **accepted** for three profit margin ratios and ***H_{04}*** stands **rejected** for four rate of return ratios.

- **Valuation Ratios:** The last category under study is of Valuation Ratios. The two ratios are analysed in this category *i.e.* EPS and P/E.

The first ratio in this category is **EPS.** The pre acquisition mean of the ratio is 13.44 and post acquisition mean is 12.02. To examine whether the acquisition has affected EPS of the acquirer firms significantly or not, paired t-test is applied on the 64 pairs of pre and post acquisition mean values of EPS. The computed value of paired t is 1.136. On comparing the calculated t value with the table value, it was found that there is no significant difference between aggregate mean values of

EPS for pre and post acquisition period. Similar results are obtained by some of the previous studies[7,8]. Therefore,

> ***H_{05}*** *: There is no significant difference in Earning Per Share (EPS) of the selected acquirer firms before and after acquisition*

stands **accepted.**

- The last ratio is **P/E.** The pre acquisition mean of the ratio 15.21 and post acquisition mean is 16.32. To examine whether the acquisition has affected P/E ratio of the acquirer firms significantly or not, paired t-test is applied on the 53 pairs of pre and post acquisition mean values of P/E ratio. On comparing the calculated t value (-1.438) with the table value, it was found that there is no significant difference between aggregate mean values of P/E ratio. This result is in conformity with the study of Daddikar P.V and Shaikh A.H. (2014)[8]. Thus, it can be concluded that the P/E ratio does not change significantly after acquisition for the acquirer companies. Therefore,

> ***H_{06}*** *: There is no significant difference in Price Earning Ratio (PE) of the selected*

stands **accepted.**

Table 7.1 presents the calculated t values for 16 ratios and status about acceptance or rejection of the hypotheses.

Table 7.1 The Summary of Empirical Results of Overall Analysis

Sr No.	Name of Ratio	t calculated	P value	Hypothesis
LIQUIDITY RATIOS				
1.	CR	1.653	0.120	H_{01} Accepted
2.	QR	0.667	0.507	H_{01} Accepted
3.	NWC/SR	0.969	0.336	H_{01} Accepted
LEVERAGE RATIOS				
4.	D-ER	0.956	0.343	H_{02} Accepted
5.	ICR	-0.851	0.397	H_{02} Accepted
ACTIVITY RATIOS				
6.	ITR	-0.353	0.725	H_{03} Accepted
7.	FATR	-0.502	0.617	H_{03} Accepted
PROFITABILITY RATIOS				
8.	GPM	-0.173	0.863	H_{04} Accepted
9.	OPM	-0.460	0.674	H_{04} Accepted
10.	NPM	-0.606	0.546	H_{04} Accepted
11.	PBDIT/TA	2.681***	0.009	H_{04} Rejected
12.	ROCE	2.060**	0.043	H_{04} Rejected
13.	ROI	2.481**	0.015	H_{04} Rejected
14.	RONW	1.780*	0.079	H_{04} Rejected
VALUATION RATIOS				
15.	EPS	1.136	0.260	H_{05} Accepted
16.	P/E	-1.438	0.156	H_{06} Accepted

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

7.2.1.2 EMPIRICAL RESULTS OF SECTORAL ANALYSIS

This section summarises the empirical results of sectoral analysis. There are 9 sectors under study *viz.* energy, materials, industrials, consumer discretionary, consumer staples, health care, financials, information technology and real estate sector. For sectoral analysis, hypotheses are framed on similar line as of the overall analysis. Therefore, the hypotheses for all selected 9 sectors are as follows:

H_{07}: There is no significant difference in liquidity performance of the selected acquirer firms before and after acquisition for selected sectors.

H_{08}: There is no significant difference in degree of leverage of the selected acquirer firms before and after acquisition for selected sectors.

H_{09}: There is no significant difference in activity ratios of the selected acquirer firms before and after acquisition for selected sectors.

H_{010}: There is no significant difference in profitability position of the selected acquirer firms before and after acquisition for selected sectors.

H_{011}: There is no significant difference in Earning per Share (EPS) of the selected acquirer firms before and after acquisition for selected sectors.

H_{012}: There is no significant difference in Price Earning ratio (P/E) of the selected acquirer firms before and after acquisition for selected sectors.

The sectoral summary of empirical results of all the ratios is presented in table 7.2

Table 7.2 Sector Wise Summary of All the Ratios

Ratios	Sectors																			
	Energy		Materials		Industrial		Cons. Disc.		Cons. Staples		Health care		Financials		Info. Tech		Real Estate		OA	
CR	↑	NS	↑	NS	↑	NS	↓	NS	↓	S*	↓	NS	↓	NS	↓	NS	↓	NS	↓	NS
LR	↑	NS	↑	NS	↑	NS	↓	NS	↓	S**	↑	NS	↓	NS	↓	NS	↓	NS	↓	NS
NWC/SR	↓	NS	↑	NS	↑	NS	↑	NS	↑	NS	↑	NS	↑	NS	↑	NS	↓	NS	↓	NS
D-ER	↓	NS	↓	NS	↑	NS	↑	NS	↑	NS	↑	NS	↑	NS	↓	NS	↓	NS	↓	NS
ICR	↑	NS	↑	NS	↓	NS	↑	NS	↑	NS	↓	NS	↓	NS	↑	NS	↑	NS	↑	NS
ITR	↓	NS	↑	S*	↓	NS	↑	NS	↓	NS	↓	NS	-	-	↑	NS	↑	NS	↑	NS
FATR	↑	NS	↑	NS	↓	NS	↓	NS	↓	NS	↑	NS	↓	NS	↑	NS	↑	NS	↑	NS
GPM	↓	NS	↑	S**	↓	NS	↑	S*	↑	NS	↑	NS	↓	NS	↑	NS	↓	NS	↑	NS
OPM	↓	NS	↑	S**	↓	NS	↑	NS	↑	NS	↑	NS	↓	NS	↑	NS	↓	NS	↑	NS
NPM	↓	NS	↑	S**	↓	NS	↑	NS	↑	NS	↑	NS	↓	NS	↑	NS	↓	NS	↑	NS
PBDIT/TA	↑	NS	↓	NS	↓	S*	↓	NS	↓	NS	↑	NS	↑	NS	↓	NS	↓	NS	↓	S***
ROCE	↑	NS	↓	NS	↓	S*	↓	NS	↓	NS	↑	NS	↑	NS	↓	NS	↓	NS	↓	S**
ROI	↑	NS	↓	NS	↓	S*	↓	NS	↓	NS	↑	NS	↑	NS	↓	NS	↓	NS	↓	S**
RONW	↑	NS	↓	NS	↓	S**	↓	NS	↓	NS	↑	NS	↓	NS	↓	NS	↑	NS	↓	S*
EPS	↑	NS	↑	NS	↓	NS	↓	NS	↓	NS	↑	NS	↓	NS	↓	NS	↑	NS	↓	NS
P/E	↓	NS	↑	NS	↑	NS	↑	NS	↑	NS	↓	S*	-	-	↑	NS	↑	NS	↑	NS

*Significant at 10% level, ** Significant at 5% level, *** Significant at 1% level

Note:
1. ↑= Increase ↓= Decrease on the basis of comparison of pre and post acquisition mean
2. The number 1 to 11 represents 9 different sectors.
3. OA indicates empirical results of Overall Analysis.
4. – indicates non availability of financial data for computation.
5. NS = Non significant S= Significant

1. The first sector under the study is Energy sector. It can be observed from the table 7.2 that financial performance of this sector is not affected by acquisition. All 6 hypotheses $\boldsymbol{H_{07}}$, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$, $\boldsymbol{H_{010}}$, $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted** for this sector, which suggest that there is no significant change in liquidity, leverage, activity, profitability and valuation performance of the companies of energy sector after acquisition.

2. The next sector is material sector, which shows statistically significant change in ITR and all three profit margin ratios. So $\boldsymbol{H_{09}}$ for ITR and $\boldsymbol{H_{010}}$ for GPM, OPM and NPM are **rejected.** Rest all hypotheses *i.e.* $\boldsymbol{H_{07}}$, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$ for FATR, $\boldsymbol{H_{010}}$ for PBDIT/TA, ROCE, ROI and RONW, $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted.** This reflects that liquidity, leverage, EPS and P/E are not affected by acquisition. The activity ratio reflected by ITR and profitability performance measured by all three profit margin ratio has improved after acquisition.

3. The third sector under study is industrial sector. It is observed from the table 7.2 that, there is statistically significant change in PBDIT/TA, ROCE, ROI and RONW of this sector. All rate of return ratios declined after acquisition indicating deteriorating profitability performance of acquirer companies of this sector after acquisition. Therefore, hypothesis $\boldsymbol{H_{010}}$ for PBDIT/TA, ROCE, ROI and RONW is **rejected.** The $\boldsymbol{H_{010}}$ for all three profit margin ratios and rest five hypotheses $\boldsymbol{H_{07}}$, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$, $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted** showing no change in liquidity, leverage, activity, EPS and P/E after acquisition. The results of this sector are exactly similar to overall analysis.

4. The consumer discretionary sector shows statistically significant improvement in GPM after acquisition. Hence $\boldsymbol{H_{010}}$ for GPM is **rejected.** Rest all hypotheses $\boldsymbol{H_{07}}$, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$, $\boldsymbol{H_{010}}$ (for rest six ratios), $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted**. This indicates that acquisition has not affected liquidity, leverage, activity, profitability (except GPM), EPS and P/E of this sector.

5. The liquidity performance of consumer staple sector, measured in terms of CR and QR is significantly declined after acquisition. Thus, $\boldsymbol{H_{07}}$ for CR and QR is **rejected.** The $\boldsymbol{H_{07}}$ for NWC/SR, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$, $\boldsymbol{H_{010}}$, $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted**, indicating no change in leverage, activity and profitability performance as well as EPS and P/E ratio of acquirer firm of consumer staple sector after acquisition.

6. The P/E ratio of health care sector has significantly declined after acquisition indicating that share holders are not very optimistic about future and growth of the acquirer companies after acquisition. Therefore, hypothesis $\boldsymbol{H_{012}}$ is **rejected**. Rest all hypotheses, from $\boldsymbol{H_{07}}$ ***to*** $\boldsymbol{H_{011}}$ are **accepted** showing that acquisition has not significantly affected liquidity, leverage, activity, profitability and EPS of the acquirer companies in health care sector.

7. The last three sectors under study are financials sector, information technology sector and real estate sector. It can be observed from the table 7.2 that financial performances of these sectors are not affected significantly by acquisition. All 6 hypotheses $\boldsymbol{H_{07}}$, $\boldsymbol{H_{08}}$, $\boldsymbol{H_{09}}$, $\boldsymbol{H_{010}}$, $\boldsymbol{H_{011}}$ and $\boldsymbol{H_{012}}$ are **accepted** for all three sectors, which suggest that there is no significant change in liquidity, leverage, activity, profitability and valuation performance of the companies of financial sector, information technology sector and real estate sector after acquisition.

7.3 RESULTS OF STUDY OF THE EFFECT OF ACQUISITION ON FINANCIAL PERFORMANCE OF THE SAMPLE ACQUIRER COMPANIES IN LONG RUN (OVERALL AND SECTORAL ANALYSIS)

- It is observed that the t-values for five ratios, *viz.* NWC/SR, D-ER, ICR, FATR, and EPS are statistically insignificant for all the 9 sectors as well as for all the companies together *i.e.* overall analysis. Thus, it can be concluded that acquisition has not significantly affected the performance of acquirer companies measured by these five ratios.

- The t-values of the CR and QR (consumer staple sector), ITR (material sector), GPM (material and consumer discretionary sector), OPM and NPM (material sector) and PE (health care sector) indicate that they are statistically significant for sectors mentioned in the bracket but not significant when entire sample is studied together. Therefore, it can be inferred that the acquisition has affected the performance of few sectors only, measured in terms of these ratios, but not affected overall performance.

- Four ratios *viz.* PBDIT/TA, ROCE, ROI and RONW are statistically significant for industrial sector as well as for all companies taken together as indicated by t-value. This indicates that overall and sectoral performance of the acquirer companies measured by these four ratios is affected by acquisition.

7.4 FINDING AND CONCLUSION OF THE EFFECT OF ACQUISITION ANNOUCEMENT ON SHARE PRICE OF THE SAMPLE ACQUIRER COMPANIES

This section summarises the findings and conclusion of the effect of acquisition on the share price of the sample acquirer companies. Before discussing the empirical results of Event Study Methodology, it would be appropriate to discuss research methodology for the same.

- **BRIEF PROFILE OF THE SAMPLE**

For event study analysis, the availability of stock market data of all the sample acquirer companies for ten months prior to acquisition is checked. This data is available for 35 acquirer companies (2007) and 16 acquirer companies (2008). Thus, the total sample acquirer companies considered for event study analysis are 51.

- **STEPS FOLLOWED FOR EVENT STUDY METHODOLOGY**

The initial task of conducting an event study is to define the event of interest[21]. In this study all the domestic acquirer companies which have undergone acquisition in the year 2007 and 2008 are considered as Event of interest. For the purpose of finding normal return the Estimation window is selected of 180 days *i.e.* -210 to -30 days. The event window of 21 days (-10, +10) is chosen for each of the 51 stocks analysed. As a first step of examining whether share prices are affected by acquisition event or not, normal returns were required to be estimated. This is carried out by using OLS. Thereafter, to find out the abnormal return if any, difference between the actual and estimated returns is derived. After calculating abnormal returns at one point of time, the next step is measurement of cumulative abnormal return for entire event window. Since the event window is an interval spanning over multiple days, aggregation must be made in order to find a single measurement of the abnormal return across the shares, over the entire event window *i.e*. time series aggregation. However, in order to test a sample for statistical evidence though, which is the aim of an event study, a single sample will not yield much of an answer, implying a second aggregation to be a necessity. This involves a cross-sectional aggregation the purpose of which is to aggregate all the time-series aggregated individual returns over the selected event window. At the end, to examine whether the acquisition announcement has affected the share price of sample acquirer companies or not, the independent t test is applied on daily abnormal returns of entire event window *i.e.* (-10, +10) to find the significance of change in price of the shares of the sample acquirer companies and to analyse the effect of acquisition announcement on them. The t test is applied on Average Abnormal Returns (AAR), which is average of abnormal returns on particular day of all sample acquirer companies, over entire event window. At last the t test is applied on Cumulative Average Abnormal Returns (CAAR) over 7 selected windows, which are part of the main event window.

7.4.1 RESULTS OF THE EFFECT OF ACQUISITION ANNOUNCEMENT ON SHARE PRICE OF THE SAMPLE ACQUIRER COMPANIES

The first part of the empirical results deal with the analysis of effect of acquisition on the share price of the individual companies followed by the empirical results of time series and cross sectional aggregation.

7.4.1.1 EMPIRICAL RESULTS OF STUDY OF THE EFFECT OF ACQUISITION ANNOUNCEMENT ON SHARE PRICE OF THE INDIVIDUAL SAMPLE COMPANIES

To examine whether the acquisition announcement has affected the share price of the acquirer companies on the event day and on the days surrounding the event day or not, the abnormal returns for the entire event window [(-10, +10) days] are calculated. The t-test is applied on abnormal returns. The null hypothesis framed for this purpose is:

H_{013}: *The Abnormal Return (AR) from the share price of the sample acquirer firm announcing an acquisition is not significantly affected by this type of information on the announcement date and surrounding the announcement date.*

The summary of entire event window for which the number of companies which have significantly positive, negative or non significant t values is presented in table 7.3.

It can be observed from the Table 7.3 that the significant change in t values is for maximum 19 companies on the announcement date. The t value is significantly positive for 13 companies and significantly negative for 6 companies. The maximum negative t values (for 8 companies) are observed on 10th day prior to event window, where t value is statistically significant for 13 companies. The t values are significant only for 3 companies on the 5th day prior to announcement date and for 5 companies on the 10th day after the announcement date.

Table 7.3 Summary of Hypothesis Testing for Entire Event Window

Days	No. of Companies			
	Non Significant	Significantly +ve	Significantly –ve	Total
-10	38	5	8	51
-9	41	6	4	51
-8	40	9	2	51
-7	41	3	7	51
-6	44	3	4	51
-5	48	3	-	51
-4	39	7	5	51
-3	44	6	1	51
-2	41	8	2	51
-1	39	8	4	51
0	32	13	6	51
1	41	6	4	51
2	40	6	5	51
3	40	6	5	51
4	43	3	5	51
5	43	5	3	51
6	40	7	4	51
7	45	3	3	51
8	41	6	4	51
9	41	5	5	51
10	46	2	3	51

7.4.1.2 EMPIRICAL RESULTS OF AVERAGE ABNORMAL RETURNS (AARs)

To examine whether the acquisition announcement has affected the share price of the entire sample of acquirer companies or not, average abnormal returns (AARs) on the event day and surrounding the event day are calculated. The t-test was applied on the average abnormal returns. To examine this, the null hypothesis is framed.

H_{014}: *The Average Abnormal Return (AAR) from the share price of the sample acquirer firms announcing an acquisition is not significantly affected by this type of information on the announcement date and surrounding the announcement date.*

Table 7.4 presents AAR, CAAR, t values and results of hypothesis testing:

Table 7.4 Average AR, CAAR, t values and hypothesis

Days	AAR	CAAR	AAR t-test	Hypothesis
-10	0.0200	0.0200	2.7053***	H_{014} Rejected
-9	0.0114	0.0314	1.5476*	H_{014} Rejected
-8	-0.0052	0.0262	-0.7083	H_{014} Accepted
-7	-0.0076	0.0185	-1.0405	H_{014} Accepted
-6	-0.0092	0.0092	-1.2465	H_{014} Accepted
-5	-0.0067	0.0026	-0.9055	H_{014} Accepted
-4	-0.0016	0.0009	-0.2207	H_{014} Accepted
-3	-0.0002	0.0007	-0.0309	H_{014} Accepted
-2	0.0636	0.0643	8.6053***	H_{014} Rejected
-1	-0.0005	0.0638	-0.0692	H_{014} Accepted
0	0.0130	0.0769	1.7664*	H_{014} Rejected
1	0.0206	0.0975	2.7970***	H_{014} Rejected
2	-0.0036	0.0939	-0.4901	H_{014} Accepted
3	-0.0001	0.0938	-0.0141	H_{014} Accepted
4	0.0007	0.0946	0.1068	H_{014} Accepted
5	0.0012	0.0959	0.1732	H_{014} Accepted
6	0.0065	0.1024	0.8827	H_{014} Accepted
7	-0.0035	0.0989	-0.4786	H_{014} Accepted
8	0.0026	0.1016	0.3640	H_{014} Accepted
9	-0.0081	0.0934	-1.1034	H_{014} Accepted
10	0.0022	0.0956	0.2977	H_{014} Accepted

Note: * Significant at 10% level, *** Significant at 1% Level

Based on the results of the t-test analysis the Null Hypothesis $\boldsymbol{H_{014}}$ is **rejected** for announcement date *i.e.* **event date** since t-test reveals a statistically significant difference in AAR values. Thus, it is concluded that the Average Abnormal Return (AAR) of the share price of the sample acquirer firms announcing an acquisition is significantly affected by acquisition announcement on the announcement date. The results of t test applied on the AARs for all 51 sample acquirer companies indicate that the AARs are positive and statistically significant on 2^{nd} 9^{th} and 10^{th} day before the event day and on the 1^{st} day after the event day. Therefore, the null hypothesis $\boldsymbol{H_{014}}$ is **rejected** for 2^{nd}, 9^{th} and 10^{th} day prior to acquisition announcement and on 1^{st} day after announcement, since t-test reveals a statistically significant difference in AAR values. This indicates that the AAR of the entire sample significantly affected by the type of information on these days, surrounding the announcement date. It can be observed that returns for stocks of domestic sample acquirer companies involved in acquisitions exceed average market returns on some day in the event window and the announcement of acquisition has positive impact on stock market, specially in the event window of (-2,+1)days. Ayoush(2011)[22] has performed similar study for the sample of domestic acquiring companies of U.K. and concluded that domestic acquiring firms earn positive abnormal returns surrounding acquisition announcement. This indicates that the investors and shareholders are in favour of the deal and are willing to buy or hold more stocks of the acquirer company. This causes the actual stock returns to outperform the expected return.

7.4.1.3 EMPIRICAL RESULTS OF CUMULATIVE AVERAGE ABNORMAL RETURNS (CAARs) FOR SELECTED EVENT WINDOWS

After analyzing AAR for all sample companies, to examine the effect of acquisition announcement on abnormal returns of the cumulative average returns of given event window, t test is applied on 7 selected event windows. Table 7.5 presents the summary of the t-test results on Cumulative Average Abnormal Returns (CAAR) for the (-1, +1), (-2,+2), (-3,+3), (-5,+5), (-10,+10), (-1,+10), (-2,+5) event windows. To examine whether acquisition announcement has affected the CAAR of the share price of the acquirer companies for the entire event window or not, the given hypothesis is framed:

H_{015}: *The Cumulative Average Abnormal Return (CAAR) from the share price of the sample acquirer firms announcing an acquisition is not significantly affected by this type of information for a given event window, as defined in the present research.*

On comparing the calculated t values with table values, it is found that the Cumulative Average Abnormal Return (CAAR) of the share price of the sample acquirer firms announcing an acquisition are significantly affected by this type of information for event windows (-1,+1), (-2,+2), (-3,+3), (-5,+5), (-10,+10) and (-2,+5). The CAARs are not statistically significant for the event window (-1,+10). Thus, the null hypothesis ***H_{015}*** is **rejected** for the event windows (-1,+1), (-2,+2), (-3,+3), (-5,+5), (-10,+10) & (-2,+5) and the null hypothesis ***H_{015}*** is **accepted** for the event window (-1,+10). The CAAR shows the cumulative returns earned by all the sample companies during the particular event window. The CAAR is positive and statistically significant for 6 out of 7 event windows. This indicates that the acquisition has positive effect on the abnormal returns of the sample acquirer companies over the specified event window.

Table 7.5 Summary of t test on CAAR

Sr No	CAAR Event Windows	CAAR	t Value
1.	CAAR(-1,+1)	0.0330	2.5948*
2.	CAAR(-2,+2)	0.0930	5.6392***
3.	CAAR(-3,+3)	0.0930	4.7489***
4.	CAAR(-5,+5)	0.0870	3.5331***
5.	CAAR(-10,+10)	0.0956	2.8233***
6.	CAAR(-1,+10)	0.0312	1.2281
7.	CAAR(-2,+5)	0.0952	4.5521***

Note: * Significant at 10% level, *** Significant at 1% Level

7.5 RESULTS OF EVENT STUDY METHODOLOGY

The present study analyses the effect of acquisition announcement on share price of the acquirer companies. To analyse the effect, Event Study methodology is used. The results of the study indicate that there are movements in share price of the companies in the defined event window. The results of event study for individual firm show that the abnormal returns on and around the acquisition announcement date are statistically significant for acquirer companies on some days of pre and post event day. Further the analysis of AARs for all 51 acquirer companies over entire event window suggests positive effect of acquisition announcement on share price of the acquirer firms, which is similar to the results of previous studies [23,24,25,26,27,28,29,30,31,32]. The results of AAR are further supported by results of CAAR. The CAAR values are statistically significant and positive for 6 out of 7 selected event windows. The positive abnormal returns on the share price of the companies indicate that the share market is positive about the outcomes of the acquisition taking place between the companies.

7.6 SUGGESTIONS BASED ON THE FINDINGS OF THE STUDY

Based on the findings, the following suggestions are put forth, which may help the acquirer firms to improve their performance after acquisition

- From the results of long term analysis, it is observed that the four rate of return ratios declined significantly after acquisition. This indicates that in long run the financial performance of the acquirer firm is affected negatively. This could happen because of decrease in profit or increase in size of total assets and net worth. The acquirer company should control its expenses properly and use internal resources after acquisition to maximise the profit. The acquisition has not affected any other performance measure significantly in the present study. Therefore, the acquiring firm should focus on post integration process to use the resources of the acquired firm properly in order to improve liquidity, leverage, activity, profitability and valuation measures.

- The results of event study methodology indicate that acquisition has positive impact on the share price of the acquirer company. Thus, for shareholders of acquirer company, it is suggested that they should be vigilant of such events, so that they can take the decision to continue or exit the investment in the company based on factors like type of acquisition, mode of financing and the abnormal returns during the pre-announcement period.

- The study has implication for investment analysts also. They can closely study the pre and post acquisition movement of share price to get some clues regarding the direction of abnormal returns.

7.7 SIGNIFICANCE OF THE STUDY

The corporate restructuring activity should be beneficial to the entire economy if the decision makers at the firm use the resources wisely and act in the best interests of the firm and the shareholders in order to maximize the value of the firm after the M&A deal.

- The present study analyses the effect of acquisition on the acquirer firm in both long run as well as short run. The findings of present research have implications for the managers, shareholders as well as the decision and policy makers as to whether the domestic acquisitions are encouraged or not.
- Majority of the researches in M&A on Indian front are based on case studies or small samples and that too from the few sectors like manufacturing or banking. The present study deals with sample of 66 firms combining 9 different sectors. The findings of this study will have implication for overall economy as well as acquisitions occurring in particular sectors.

7.8 LIMITATION OF THE STUDY

LIMITATION OF LONG RUN ANALYSIS

- The present study is restricted to acquisition that took place in the calendar year 2007 and 2008 only. So the economic conditions at that time might have affected the outcome of the study.
- As it is not possible to accommodate the possible difference in accounting methods by different companies included in the sample, to that extent there may be variations on the impact that would be measured.

LIMITATION OF EVENT STUDY METHODOLOGY

- There are three main assumptions of event study analysis (i) market is efficient, (ii) the event was unanticipated and (iii) there were no cofounding effects during the event period, mentioned in stage III, part two of methodology for Event Study in Chapter 4. These assumptions may not be applicable in all circumstances. Due to market inefficiency observed stock prices may not fully and immediately reflect all information.

- In the present study, the effect of acquisition announcement on share prices is analysed, assuming that acquisition is the only event in the event window. But some unforeseen coexisting events could also have an effect on the sample stocks, which could lead to biased stock returns. So abnormal returns may not be entirely the result of market reaction to the specific event of interest.

- Variations in estimation and test periods are commonly found in event studies. Precise estimation periods are not easy to determine. So for the same sample and study period the difference in estimation window may yield different results.

- There are various models available to estimate expected or normal returns like, constant mean return model, market model, economic models *etc.* The choice of model to estimate expected returns will have a bearing on the results in the magnitude and the significance of abnormal returns.

- Not all stocks trade every day. Thin trading over the estimation and test period is a problem in event studies. For example, stock and market returns might not be available on the selected days throughout the estimation period if researchers apply the market model, thus the sample size will reduce.

7.9 SUGGESTIONS FOR FURTHER RESEARCH

The present study is divided in two parts (i) it analysed the effect of acquisition on the domestic acquirer companies by studying the financial performance of the companies 5 years pre and post acquisition and (ii) it has analysed the effect of acquisition announcement on share price of the acquirer companies by using event study methodology. This study provides number of clues for further research.

✸ BASED ON LONG RUN ANALYSIS

- ❖ A study analysing the effect of acquisition on financial performance of target companies in long run can be done.
- ❖ The study period may go beyond 10 years. Testing of effect of acquisition on financial performance in the long run can be done.
- ❖ The study can be carried out for cross border acquisitions.
- ❖ Further studies could be undertaken to find the strategic motives, other than financial motives, behind acquisitions
- ❖ The researcher can study the effect of other forms of corporate restructuring on financial performance of the companies.

✸ BASED ON SHORT RUN ANALYSIS

- ❖ The study can be carried out to examine whether the price movement before the acquisition date is because of information leakage or not, which is not supported by semi strong form of efficient market hypothesis.
- ❖ Increase in abnormal return on the share price for acquirer companies after acquisition may indicate that share holders believe that the acquisition will provide competitive advantage to the company and will be beneficial for company. Opposite to this, decrease in abnormal returns of the share price of the acquirer companies after the acquisition date could be due to high premium paid by the acquirer companies to the target companies. The further research can be carried out to find the significance of both the points.
- ❖ In addition to that, it is important to note that this study only analyzes the effect on the acquiring firm. This study may lead into further review of the effects of the acquisition announcement on a target company.

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