# SHORT-TERM IMPACT OF M&A ON SHAREHOLDERS' RETURNS: A STUDY OF CORPORATE ACQUIRER FIRMS IN INDIA

Anshu Agrawal[1], P.K. Jain[2] and Sushil[3]

*Mergers and acquisitions (M&A) constitute crucial investment decisions; being so, they are expected to have significant implications for corporate firms' performance. To be consistent with the objective of wealth-maximization, the M&A decisions should have positive impact on the shareholders returns. The study assesses the stock returns for the acquirer firms, associated with M&A announced in India during the years 2002-2008 (peak to peak); the present sample consists of 136 acquirer firms: 19 from auto-ancillary, 42 from pharmaceutical, and 75 from IT sector. Results indicate that the M&A announced in Indian corporate sector during the stated peak of M&A as value creating/enhancing. Shareholders of acquirer firms have earned/ gained excess to normal returns around M&A announcement; the magnitude of returns and the period of returns-conducive window pertaining to IT was significantly better vis-a-vis auto-ancillary and pharmaceutical sector; perhaps the IT boom period (observed 2004 onwards) could be reason. Further, we have observed that the stock market response to M&A announcements lasts, by and large, for a weak only.*

**Key words:** M&A Announcements; Abnormal Returns; Event Study; Acquirer Firms; Clean Window; Contemporaneous Events

## INTRODUCTION

M&A are vital corporate investment decisions. These decisions are reckoned as value-creating strategies expected to bring synergistic benefits to the merging entities, operating, marketing, managerial, and financing and so on. The darker side is that, returns from M&A are highly uncertain; a large body of literature has observed M&A as value-deteriorating strategy, particularly, from acquirer firms' perspective (Agrawal *et*

[1] PhD Scholar, Department of Management Studies, Indian Institute of Technology Delhi, Vishwakarma Bhavan, Hauz Khas, New Delhi - 110016.

[2] Professor, Department of Management Studies, Indian Institute of Technology Delhi, Vishwakarma Bhavan, Hauz Khas, New Delhi - 110016.

[3] Department of Management Studies, Indian Institute of Technology Delhi, Vishwakarma Bhavan, Hauz Khas, New Delhi - 110016.

*al.* 1992; King *et al.* 2004). To be consistent with the goal of wealth-maximization, M&A should be able enhance/ improve the profitability/returns/ value to shareholders. The underlying potential of M&A decisions starts reflecting much earlier, on their announcements it-self, in form of share-price fluctuations. Since, M&A decisions involve huge stake of funds, there potential merits assessment at earliest.

Since post-liberalization reforms (1990), the investment in M&A in India has been evidencing a consistent growth pattern. Recent M&A wave (2002-08) has proved to be the wave of M&A mania, with spurt growth observed in terms of value as well as volume. During the year 2007 (before the recession set in) the M&A value in India was all time high, recording USD 70 billion, revealing a growth rate of 150 per cent *vis-a-vis* global growth rate of 49.11 per cent. After a minor correction, observed during the years 2008 and 2009, the M&A market in India has revived, registering a growth of 159 per cent in 2010 (touching the same level as was witnessed during 2007). The parallel movement of M&A activities with economy is suggestive of M&A activities to be a significant part of economic development. More vivid M&A market is foreseen with the rise in the level of economic growth in the coming years.

This paper attempts to assess the impact of M&A in India. As per efficient market hypothesis, stock prices quickly absorb every new information/announcement/ corporate event in the market and transmit the same in forms of stock price fluctuation. Therefore, it has been a general practice to assess the economic effect of corporate events in terms of stock-returns using event study methodology. Using this methodology, the study attempts to examine the abnormal returns associated with M&A announcement pertaining to shareholders of acquirer firms in India. The study examines the M&A announced during M&A wave pertaining to the time span of 2002-08; the sample period has been assumed useful in bifurcating the returns during different economic scenarios; for instance, the period 2002 onwards has witnessed economic uprising; during 2007 M&A were at peak; the year 2008 was the recession year (Figure 1). Such a sample would be insightful for identifying the impact of economic changes on M&A. The study covers three sectors, namely, auto-ancillary, IT, and pharmaceutical.

## LITERATURE REVIEW

Announcement impact of M&A has been an extensively researched area in literature. Notwithstanding the fact, the findings are non-convergent as to whether M&A decision

adds to the value of shareholders' or deteriorates it. A brief review of stock-price studies over three decades (1994 to 2005) by Kumar and Panneerselvam (2009) is suggestive of the wide disparity in the empirical findings, albeit the similar methodology with minor variations in data, periods, or region covered. Studies by Datta, *et al.* (1992), Bruner (2002), King *et al.* (2004) also corroborate the same.

Large number of empirical studies support positive abnormal returns associated with M&A announcement (Markides and Ittner 1994; Cakici *et al.* 1996; Schwert 1996; Maquieira *et al.* 1998; Eckbo and Thorburn 2000; Kohers and Kohers 2000; Doukas *et al.* 2002; Beitel *et al.* 2004; Anand and Singh 2008; Mittal, *et al.* 2012; Rani *et al.* 2013). Fee and Thomas (2004) have witnessed abnormal returns of 3.06 per cent over a three days window around announcement (day -1 to day +1) on analyzing 554 horizontal deals taken place during 1980-97. Anand and Singh (2008) have examined the effects of M&A announcements on private sector banks in India over a forty days event window; findings have shown significant accumulations of abnormal wealth in three to eleven days window for bidder as well as target banks.

Few studies docuent M&A as value-deteriorating decisions (Jensen 1986; Shleifer and Vishney 1989; Kuipers *et al.* 2002; Martinez-Jerez 2002; Akbulut and Matsusaka 2003). There are some studies, which have observed significant negative returns up to five cent for the acquirer firms (Sirower 1997; Datta and Puia 1995; Corhay and Rad 2000; Mulherin and Boone 2000; Mitchell and Stafford 2000; Walker 2000; DeLong 2001; Houston *et al.* 2001; Goergen and Renneboog 2004).

There also exist studies that suggest no significant impact of M&A on the stock-returns. For instance, study by Andrade *et al.* (2001) suggests 3-days abnormal returns around announcement for target firms, whereas, no conclusive evidence has been noted for abnormal returns to the acquirer firms. In a review study of 14 informal and 100 scientific studies (during 1971 to 2001), Bruner (2002) observed massive studies indicating sizeable positive returns for shareholders of target firms, zero returns for acquirer firms and positive combined returns for both bidder and acquirer firms.

Jensen and Ruback (1983) have observed significant difference in the shareholders returns from mergers and acquisitions (as separate events); shareholders of bidding firms have earned significant positive gains of 2.4 per cent to 6.7 per cent and weighted average returns of 3.8 per cent in successful tender offers; in marked contrast, zero/negligible returns have been noted for the shareholders of bidding firm for mergers.