Stock Price Returns of Manufacturing Companies in India in Post M&A Period

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Abstract-* *Mergers and acquisitions are those corporate growth strategies which are taken by the companies to position their business in top among their competitors. As a part of business strategy, these are those investment decisions which contribute various economic/financial or non-economic /non-financial advantages to the shareholders, customers and employees related to the firm. Business combinations through mergers or acquisitions, helps the companies to use their complementary physical and human resources that make use of their competence and brings competitive advantage of the company among the rest of companies. In the changing face of competitive business environment, companies in India and around the world are using this M&A as growth strategy. This paper investigates the stock price performance of manufacturing companies in India. For the purpose, one year before and one year after M&A is taken to analyse performance and know immediate impact of M&A. Performance is also analysed using average of two year before and after M&A. It is found that in majority of cases (56%, i.e. 67 out of 139), the companies have shown positive return in terms of market price in both one year as well as two year after M&A.

Index Terms- **Merger, Acquisition, Growth, Strategy**

I. Introduction

Mergers and acquisitions (M&As) are those corporate growth strategies which are taken by the companies to position their business in top position among their competitors. As a part of business strategy, these are those investment decisions which contribute various economic/financial or non-economic /non-financial advantages to the shareholders, customers and employees related to the firm. Business combinations through M&As helps the companies to use their complementary physical and human resources that make use of their competence and brings competitive advantage of the company among the rest of companies. In the changing face of competitive business environment, companies in India and around the world are suing this M&A as growth strategy. The present paper also investigates the stock price performance of manufacturing companies in India.

The rest of the paper is organized as follows: Section-II presents the definition of M&As relating to the study. Section III portrays the literature review on firm's financial performance during post M&As period based on various research papers published in India and abroad. Section IV observes the existing literature relating to stock price performance and identifies the gaps, and suggests the objective of study as shown in Section V. Section VI discusses the research methodology and Section VII shows the financial results of the study. Finally, in the Section VIII, it deals with the summary of conclusion including contribution to academic literature, limitations and future research avenues.

II. Definition and Concept

Mergers and acquisitions are the important business strategies for the growth and development of the companies. A merger or acquisition is a deal where two or more companies agree to combine each other's business to become one [1].

For the current study, M&As have been defined according to definition provided by CMIE Prowess data base, since most of the data are collected from this database. Acquisitions are the takeover transactions where an acquirer company takes over a substantial part of shares of another (target) company. Mergers are transactions where an acquirer company is merging with a target.

III. Review of Literature: Pre and Post M&A Stock Price Performance

Mergers and acquisitions are rising in terms of both number of deals and value of deals. As per the business beacon database, from 2000 to 2011, there were 3692 merger deals and 9713 acquisition deals announced in India. However, there is still debate going on in academic community that whether these M&As really improve performance of companies or not. In regard to this problem, the answer from past research is mix. Post M&A performance can be better, worse or remain same as pre M&A performance. There is vast literature on research in mergers or acquisitions and its effects on company's performance. This section attempts to make review of literature on post M&A performance keeping in mind the growing importance of M&A in recent times.

With regard to the company performance and shareholders' return, there are three outcomes namely value creation, value conservation and value destruction. Value is created when post M&A performance is better than pre M&A performance. Value is conserved when there is no change in performance before and after M&A. value is destroyed when post M&A performance is worse than the pre M&A performance [1]. Accordingly, literature survey has been made to understand whether mergers and acquisitions value creating or destroying in nature. Therefore, study of research papers are made on the works relating to post merger corporate performance from Indian and International research works. As observed through literature, most of the work is done in USA & UK apart from Malaysia, Japan, Australia, Greece, and Canada. Limited works are done with respect to India. A lot of studies have been carried out to know the effects of mergers and acquisitions on share prices and thereby on the shareholder wealth, and the pre and post-M&A market performance of the target and acquirer firms. The past studies have only discussed results with limited number of M&A deals which did not reflect any conclusive evidence of whether M&A improves performance of company or not.

The literature review in this section basically puts emphasis on 'Studies using Event studies or share return studies. Such studies examine share or stock price returns to the acquirer and acquired over a short-run period surrounding the announcement. A number of event studies also examine share returns over a long-run post-acquisition period. The approach for the examination of abnormal stock returns to the shareholders of both acquirer and target around the announcement of an offer is called event studies, event being the M&A announcement.

Acquisitions are not value-creating transactions for shareholders. Stockholders of the acquiring firm experience a statistically significant wealth loss after deal is completed. If there is any increase in returns, then it is small and statistically insignificant [3] [4] [5] [6] [7]. The stock returns to the acquiring companies are either zero or negative [8] [9]. It is also found that the post-merger stock price of the merged companies are negative and even worse than the stock price of a control firms that did not merge [10].

Return from M&A is not always negative. Different studies provide evidence that shareholders of both acquiring and target firms earn positive returns from M&A. Stockholders of target firms earn large positive abnormal returns from tender offers [11] [12] [13] [14]. The shareholders of the acquiring firm get statistically significant [15]. Mergers and acquisitions show positive cumulative abnormal returns to the shareholders of both acquiring firm and target firms [16] [17]. Target return, acquirer return and total returns are larger when targets have low q ratios and acquirers have high q ratios [18]. Acquisition helps in getting positive announcement returns). The cumulative abnormal return is positive to the target firm shareholders [19]. Both acquisitions and divestitures in the 1990s increased shareholder wealth [20]. There is a significant, positive co-movement in vertical merger activity and wealth effects, consistent with economy-wide shocks that affect both the incentives for firms to integrate vertically and the resulting efficiency gains from such mergers [21]. There is a long term abnormal return for acquirers. Market corrects for its overreaction to an acquisition announcement event within a short period of time [22]. For short run announcement period, the average cumulative abnormal return is positive and similar for the first merger for single as well as multiple acquirers [23]. The post-merger impact appears stronger when measured against the acquirer's results alone [24].

Literature suggests that M&A returns are based on who gets the returns and the timing of getting return. M&A are the positive net present value generating projects, for acquiring as well as target firms. [25]. Acquiring firm shareholders make small gains before and large losses after consolidation [26]. Mergers and acquisitions result in benefits to the acquired firms' shareholders and to the acquiring companies' managers while in case of losses, it is suffered by the acquiring companies' shareholders [27]. Shareholders of target firm gain while shareholders of acquirer either gain or lose [28]. Diversingfying deals do not create value [29]. In stock market studies, it is found that there is significant gain to target firm shareholders and little or no gain to acquiring firm shareholders around the time when the mergers and acquisitions took place. Over the long-term, in the post announcement period, acquiring firms earn lower returns relative to those earned in the pre-acquisition performance but their relative performance remains exceptionally good [30]. Since the return varies in different situations, it is therefore important to know for whom performance is to be evaluated - target, acquirer or combined firm; for which time period performance is to be evaluated - short term or long term. There are mixed results as found in works applying stock price return method.

IV. Research Gap Areas

The decision to go for M&A deals is one of the important investment decision taken by the board of directors and mangers of firms as it involves million and billions of money in terms of cost as well as profit. Indian manufacturing companies have gone for numerous M&A

deals. From , the literature review made, it is observed that there are limited studies done in Indian M&A context to judge the change in stock price performance. Again, in the light of literature review made, studies shows inconsistent results in event study; it might be because the performance of M&A is not centered on recent M&A deals that have grown in numbers compared to earlier years. Therefore, there is still scope to do a study about the stock price returns of manufacturing companies after M&A in India.

V. RESEARCH OBJECTIVES

In light of the above research gaps, the objective of this study is: To find out the difference between the pre and post M&A stock price returns of companies in the manufacturing sector in India.

VI. RESEARCH METHODOLOGY

The aim of the study is to find out the post M&A stock performance of manufacturing companies in India in the post M&A period. In the light of this objective, an attempt is made in this section, to identify from literature different approaches to judge the M&A performance. The details of each steps taken to carry out the objective of study is discussed in this section.

Literature on M&A assesses M&A performance through four basic approaches (a) event studies (b) accounting approach (c) clinical approach or case study (d) survey of executives. Among the four methods, Event studies evaluate the cumulative abnormal returns based on share prices over a window period during the announcement date of M&A. Typically, such method calculates the share price returns around the time of M&A announcement indicating how market expects from particular M&A event. This study is carried out following the market based measures using stock prices. However, this study simply gauges performance by observing the percentage changes in stock prices. It has not used any specific event study for the purpose.

A. Sources of Data and Period of Study

The study investigates the pre and post M&A stock price returns of manufacturing companies in India that have gone for M&A deals during the period from 1st January 2000 to 31st December 2008. The data for analysis are collected from various sources such as CMIE Prowess database. However, data collected from Centre for Monitoring Indian Economy (CMIE) Prowess database are used to collect data about sample of M&A deals of acquiring firms. The manufacturing sector is selected because highest number of M&A deals are done in this sector [31].

The data were further filtered to find out if stock price data is available for acquirer firm for one and two year before as well as after M&A event are available or not. For example, for a M&A deal that took place in 2000, the data are collected for the acquirer from 1998 to 1999 for pre M&A period and then 2001 to 2002 for post M&A period. Thus, for entire study, data from year ending 31st March 1997 to 31st March 2011 are taken for the performance evaluation of the manufacturing companies. This study uses the short term period in terms of one year and two years to evaluate only the acquiring firm performance. In the study, the year of M&A event data is not used for analysis because during this year there could be changes in the financial reporting [32] [33] . Earlier, the sample consists of 407 M&A deals (290 merger deals and 117 acquisition deals). From these all listed manufacturing acquiring companies are filtered. Adjusted Closing Price value is taken into consideration for calculation of stock prices of acquirers. Thus, firms with no data on closing stock price are removed from sample. Finally, the present study considers 139 acquiring companies for which pre and post M&A stock price data are available. Both one year two year stock returns are found out for such companies. It may be noted that the share price returns are not adjusted for any benchmark like index return. In case of multiple M&As by a particular company, the latest M&A event is considered.

Each acquirer belongs to specific industry. Like past studies [34] [35] [36], this study have used suitable control sample that is completely different from the experimental sample to examine the post M&A performance to know whether the firm performance is because of M&A and isolate the influence of industry and economic factors. Therefore, control firms are selected for each industry based on two criteria (a) manufacturing companies that have not gone for any M&A deals during the sample period (b) data are available for the sample period.

B. Measures and Techniques of Evaluating Performance

In the light of the research objectives of the study, variables and their definitions are adopted from existing literature. All the financial ratios are computed with the help of data collected from CMIE Prowess. The stock returns are not collected directly from the data source. Rather data for acquiring firm are collected and then each value is calculated.

Table I Snapshot of the Research Tools

Objective	Period of Study	Statistical Tools	Performance Metrics
To find out the difference in pre and post M&A stock price	2000-2008 (1997-2011)	Simple Percentage Change Method	Stock prices of acquiring firm

performance in the manufacturing sector in India.			

C. Hypothesis Development

Based on the research objectives framed from the literature survey, the research hypothesis that is tested is: "There is no difference between the Pre-M&A and Post-M&A stock price performances of companies in the manufacturing sector in India i.e.[i] $PreM\&A_{SPR} = PostM\&A_{SPR}$. The hypothesis is tested simply by observing the percentage of negative stock returns and percentage of positive stock returns for companies that have gone for M&A deals.

VII. Findings of Post M&A Share Price Return

In this section we have evaluated the performance using stock returns. The share price return of the acquiring companies is provided in **Table II.**

Table II Post M&A Share Price Returns of Acquirers

Name of the Company	**1 year Return (%)**	**2 year Return (%)**
A B India Ltd.	151.58	205.00
A C C Ltd.	-6.00	5.62
Aarti Drugs Ltd.	84.29	18.61
Aarti Industries Ltd.	229.26	393.16
Aditya Birla Nuvo Ltd.	48.11	93.10
Alkyl Amines Chemicals Ltd.	-53.01	-86.76
Ambuja Cements Ltd.	93.45	99.81
Amtek Auto Ltd.	-30.48	-79.82
Andhra Pradesh Paper Mills Ltd.	-7.98	-10.73
Andhra Sugars Ltd.	-59.01	-61.16
Apar Industries Ltd.	49.69	-43.10
Asahi India Glass Ltd.	25.95	346.25
Astra Microwave Products Ltd.	-50.83	-66.13
Aurobindo Pharma Ltd.	92.19	13.70
B A S F India Ltd.	-33.90	-8.25
B S L Ltd.	-31.49	-38.01
Bajaj Hindusthan Ltd.	-61.34	-62.64
Ballarpur Industries Ltd.	-0.21	-22.89
Balrampur Chini Mills Ltd.	-64.95	-56.94
Bannari Amman Sugars Ltd.	-20.00	30.43
Bayer Cropscience Ltd.	-32.46	-30.50
Bharat Heavy Electricals Ltd.	192.52	195.05
Bharat Petroleum Corpn. Ltd.	31.20	92.95
Cadila Healthcare Ltd.	-0.33	-24.98
Carborundum Universal Ltd.	-26.04	-46.11
Castrol India Ltd.	-25.23	-39.76
Clariant Chemicals (India) Ltd.	-38.03	-77.31

[i] SPR means Stock Price Returns

Name of the Company	**1 year Return (%)**	**2 year Return (%)**
Colgate-Palmolive (India) Ltd.	15.02	41.65
Coromandel International Ltd.	127.88	56.88
Cosmo Films Ltd.	101.86	300.40
Cummins India Ltd.	-8.88	-11.31
D C M Shriram Consolidated Ltd.	9.50	348.14
Dabur India Ltd.	16.63	4.42
Dalmia Bharat Sugar & Inds. Ltd.	36.62	7.68
Dhampur Sugar Mills Ltd.	454.49	952.45
E I D-Parry (India) Ltd.	165.60	608.76
Eastern Silk Inds. Ltd.	320.00	1138.15
Elantas Beck India Ltd.	-10.22	5.06
Elder Pharmaceuticals Ltd.	38.71	122.16
Electrosteel Castings Ltd.	70.68	102.61
Esab India Ltd.	-39.75	-10.28
Ess Dee Aluminium Ltd.	93.35	-45.54
Essel Propack Ltd.	42.87	10.76
Eveready Industries (India) Ltd.	-49.72	-70.91
Exide Industries Ltd.	65.24	1.00
Federal-Mogul Goetze (India) Ltd.	14.54	0.00
Finolex Cables Ltd.	33.07	-18.20
Futura Polyesters Ltd.	-25.69	-43.06
Glaxosmithkline Pharmaceuticals Ltd.	107.65	146.05
Graphite India Ltd.	-26.80	-3.15
Grasim Industries Ltd.	69.83	72.33
Greenply Industries Ltd.	208.36	1373.76
Gujarat Ambuja Exports Ltd.	13.77	243.11
Gujarat Apollo Inds. Ltd.	84.62	28.19
Gujarat Narmada Valley Fertilizers & Chemicals Ltd.	34.05	125.07
H I L Ltd.	690.40	1745.76
H M T Ltd.	88.19	271.65
Heidelberg Cement India Ltd.	-13.63	-52.36
Hindalco Industries Ltd.	-28.68	-9.63
Hindustan Organic Chemicals Ltd.	-42.20	-50.35
Hindustan Petroleum Corpn. Ltd.	21.39	119.61
Hindustan Unilever Ltd.	106.14	55.51
I F G L Refractories Ltd.	-4.84	-42.74
I T C Ltd.	9.79	-6.03
India Cements Ltd.	111.32	-2.37
India Glycols Ltd.	-30.79	64.32
Indian Oil Corpn. Ltd.	33.42	-8.76
Indoco Remedies Ltd.	23.71	-4.10
Ipca Laboratories Ltd.	75.86	597.85
J B F Industries Ltd.	24.76	-68.01
J K Cement Ltd.	13.59	-72.61

Name of the Company	1 year Return (%)	2 year Return (%)
J K Tyre & Inds. Ltd.	-26.77	0.92
J S W Steel Ltd.	62.79	170.53
Jai Balaji Inds. Ltd.	59.79	666.19
Jain Irrigation Systems Ltd.	101.16	236.13
Jay Shree Tea & Inds. Ltd.	-9.18	-23.37
K E C International Ltd.	18.78	51.00
K S B Pumps Ltd.	-45.00	-49.70
Kansai Nerolac Paints Ltd.	74.29	29.44
Kesoram Industries Ltd.	108.06	264.56
Kirloskar Brothers Ltd.	-37.49	-79.13
Lakshmi Machine Works Ltd.	29.80	550.91
M P S Ltd.	-29.43	-69.75
Mahindra & Mahindra Ltd.	-10.68	-50.84
Mahindra Ugine Steel Co. Ltd.	420.10	587.28
Manali Petrochemicals Ltd.	8.11	-32.43
Marksans Pharma Ltd.	653.44	443.23
Mcleod Russel India Ltd.	-56.18	-52.72
Mirc Electronics Ltd.	-16.70	-25.05
Mirza International Ltd.	139.22	685.10
Motherson Sumi Systems Ltd.	39.16	7.98
National Aluminium Co. Ltd.	228.27	265.60
Novartis India Ltd.	-84.91	-86.25
Pfizer Ltd.	-19.50	-44.76
Pfizer Ltd.	47.44	131.79
Piramal Enterprises Ltd.	-9.61	-31.41
Polar Industries Ltd.	-12.97	-31.06
Punjab Chemicals & Crop Protection Ltd.	-5.27	3.97
R S W M Ltd.	-32.03	-39.27
Rajshree Sugars & Chemicals Ltd.	17.39	185.71
Rallis India Ltd.	-16.37	5.61
Ranbaxy Laboratories Ltd.	-18.61	1.41
Raymond Ltd.	58.38	6.32
Reliance Industries Ltd.	72.29	184.88
Ruchi Soya Inds. Ltd.	229.73	386.37
S B & T International Ltd.	-47.55	-75.46
Sakthi Sugars Ltd.	224.91	47.55
Sangam (India) Ltd.	120.70	133.38
Shrenuj & Co. Ltd.	293.82	210.36
Siemens Ltd.	13.03	-50.84
Siemens Ltd.	250.59	507.53
Southern Petrochemical Inds. Corpn. Ltd.	-34.45	-11.78
Standard Industries Ltd.	48.74	75.72
Steel Authority Of India Ltd.	62.12	-15.62
Sterlite Technologies Ltd.	52.99	186.61
Strides Arcolab Ltd.	-49.88	-76.29
Sun Pharmaceutical Inds. Ltd.	140.09	243.77
Sundaram-Clayton Ltd.	-43.55	-92.05
Sundram Fasteners Ltd.	-24.69	-61.78
Supreme Industries Ltd.	52.34	283.59
Supreme Petrochem Ltd.	-21.92	-11.27
T T K Healthcare Ltd.	-35.19	-66.32
T V S Motor Co. Ltd.	9.79	127.51
Tata Chemicals Ltd.	39.73	189.84
Tata Global Beverages Ltd.	-29.93	-4.63
Tata Motors Ltd.	-21.86	-33.18
Tata Steel Ltd.	-20.11	9.28
Technocraft Industries (India) Ltd.	-45.03	-78.10
Thermax Ltd.	60.45	321.83
Tube Investments Of India Ltd.	113.10	571.03
Uflex Ltd.	48.77	404.36
United Spirits Ltd.	80.47	-22.02
Universal Cables Ltd.	205.77	121.96
V I P Industries Ltd.	153.27	321.45
Videocon Industries Ltd.	668.28	1302.93
Wellwin Industry Ltd.	6.33	-60.95
West Coast Paper Mills Ltd.	85.03	246.47
Wyeth Ltd.	10.77	-22.78
Zodiac Clothing Co. Ltd.	29.63	68.88

Source: Authors Calculations based on data from CMIE Prowess database

It is found that in majority of cases (56%, i.e. 67 out of 139), the companies have shown positive return in terms of market price in both one year as well as two year after M&A. These results are similar to various earlier studies that show evidence that shareholders of both acquiring earn positive stock price returns from M&A. [15] [16] [17] [19] [20] [21] [22]. 44% of the acquiring companies have shown declining performance in terms of share price return. This is similar to earlier studies where stock price performance is negative [1] [3] [5] [6] [7] [9] [10].

There are twenty six chemical companies, five diversified companies, seven Food and Beverage, nine Machinery, seven Metal and Metal Products, four Non Metallic and Mineral products, five Textiles, two Transport Equipment and Miscellaneous Manufacturing that found positive stock price return. Out of 68 companies that have shown positive return, most of them have preferred merger (50 nos.) route rather than acquisition (18 nos.) route.. Experienced acquirers (42) are more in this sample than non-experienced acquirers whose stock price have improved. Acquirers choosing targets from same industry have shown better stock price return in the post M&A period.

The reason for positive stock price return is due to efficiency gains out of M&A. Market corrects for its overreaction to an acquisition announcement event within a short period of time and this is consistent with the long-term operating performance results in the post-acquisition period (Dutta & Jog, 2009). The explanation for the firms whose share price is negative after its announcement is hubris. These acquiring firms tend to overpay the deal value. These firms pay through equity. Payment through issue of equity gives signals that market overvalues assets in that place.

VIII. Summary and Conclusion

In the present-day situation, where competition rules due to globalization of business, mergers and acqusitions are considered as powerful strategic tool in hands of management to face this competition. The stock prices returns is used to explore the short term price changes in the stocks of Indian acquirer due to acquisition. The results document positive return in terms of market price in both one year as well as two year after acquisitions. From the study, it emerges that, M&A deals has improved the performance of Indian manufacturing companies. Comparing the present study with earlier studies, the results shows similar trend.

The current study has important managerial implication. It shows the potential effects of M&A on companies share prices, thereby allowing the managers to understand that the shareholders wealth of acquiring companies increases due to increase in syngery, diversification and market power due to M&A deals. It provides another important managerial implications that should be taken into consideration, that, any negative impact of the M&A on the share prices is possibly due to hubris hypothesis and manager's utility maximization. Hence, managers should involve in those deals that bring wealth for shareholders and avoid those investments in form of acqusitions where due to some ulterior reasons they overpay while making an M&A deal.

The limitations of study show prolific possibilities for carrying out future research. To begin with, the study has focused on companies only in the manufacturing sector with limited time frame. Study can be conducted for other sectors with recent acquisitions deals. This study considered simple percentage change in stock prices returns in evaluating performance. Performance can be evaluated using short term returns as a result of announcements of M&A based on event studies. Hopefully, this study would attract attention among researchers for further research to extend this work.

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