Seminar on
Cross Border Acquisitions by Indian Firms: Impact on Acquiring Firm’s Performance and Shareholder Wealth

Speaker
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Venue
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Abstract

After the regulatory reforms, large firms and industrial houses in India have started actively experimenting with acquisitions of foreign firms. Apparently, the motive behind mergers and acquisitions is to benefit from the synergies generated through the expansion of markets, increased cost efficiency, augmentation of technology and improved financial performance. However, it has been documented in the international literature that in most of the cases, the acquirer firm’s value and shareholder wealth deteriorates after acquisition.

The present study aims at examining whether the large scale cross border acquisitions by Indian firms have succeeded in creating shareholder wealth and improving the acquiring firms’ performance.

The study examines the impact of outbound cross border acquisitions by the large cap acquirer firms in India on shareholder wealth. A sample of 13 large cap Indian firms which have successfully completed cross border acquisitions during 2000 to 2013 is used for the analysis. The objective is to examine whether the acquiring firm gains in terms of increased profitability, improved financial ratios and higher returns to its shareholders both in the short run as well as in the long run. For this purpose the analysis is divided into two parts.

The first part deals with the short run impact of the acquisition on the acquiring firms’ equity returns. The methodology used for this analysis is the event study methodology. Our analysis shows that the outbound cross border acquisitions by Indian firms have a positive market wealth effect for investors in the short term. This finding is consistent with the findings of earlier studies on international acquisitions.

The second part of the study examines the effect on acquiring firms’ shareholders in the long run. The study tries to capture the long run post-acquisition effect on acquiring firms’ in terms of its financial performance measured by profitability ratios. To reinforce this analysis, the Altman Z score for the sample firms is calculated for pre- acquisition and post - acquisition period. The findings of both these methods suggest that the acquiring firms’ performance in terms of profitability ratios and Altman Z scores has deteriorated during the post- merger period.