



THE IMPACT OF MERGERS AND ACQUISITIONS ANNOUNCEMENT ON FIRMS IN IT AND ITES SECTOR IN INDIA

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Abstract

Mergers and acquisitions (M&A) in the corporate world are achieving increasing importance and attention especially with the advent of intense globalization. M&A is the important approach to expansion and development of today's enterprises, which can help the enterprises quickly have access to market channels and expand market share, thereby bringing about economic scale benefits for enterprises.

This study examines the impact of Mergers & Acquisitions on the stock prices of the acquiring firms in the Information Technology and Information Technology Enabled Services (IT&ITES) sector and tests whether the shareholders of these firms can earn abnormal returns on Mergers & Acquisitions announcements. The present study is mainly intended to examine the financial performance of merged companies three years before merger and three years after mergers. In order to determine these, the study uses data of the acquiring firms in the period 1998 to 2010 as the research sample and applies the Event Study Methodology.

Keywords: *Mergers, Acquisitions, Event study Methodology.*

Introduction

Mergers and Acquisitions in India

The practice of Mergers and Acquisitions has attained considerable significance in the contemporary corporate scenario which is broadly used for reorganizing the business entities. Indian industries were exposed to plethora of challenges both nationally and internationally, since the introduction of Indian economic reform in 1991. The cut-throat competition in international market compelled the Indian firms to opt for mergers and acquisitions strategies, making it a vital premeditated option

Mergers and Acquisition in IT and ITES Sector in India

The success story of Indian IT/BPO is attracting a lot of growth opportunities. To achieve its potential the industry is taking an inorganic route to meet its demands. The industry has been much concentrating on the fast growing US market. With the subprime crisis, and the world on the brink of recession, it remains to be seen if the industry will still sustain its rapid growth. Every bad scenario has a built in opportunity in it. Likewise here the recession may prove to be a boon for the BPO's. The focus on cost reduction is expected to increase, keeping in mind the current recessionary environment. Hence, the mileage will shift towards outsourcing. The future outlook is positive, leading to increased momentum for global sourcing.

Scope of the Study

This study examines the impact of Mergers and Acquisitions on the stock prices of the acquiring firms in the Indian Information Technology and Information Technology Enabled Services (IT&ITES) sector and tests whether the shareholders of these firms can earn abnormal returns on mergers and acquisitions announcements. In order to determine these, the study uses 189 acquiring firms in the period 1998 to 2010 as the research sample and applies the Event Study Methodology.

Objectives of the Study

- To examine the trends of merger and acquisition in IT and ITES sector.
- To study the impact of merger and acquisition on shareholders wealth

Literature Review

Astha Dewan (2007) focussed on the post merger financial performance of the acquirer companies in India and performance of firms going through mergers in Indian industry. The merger cases for the year 2003 have been taken for the analysis. The financial data has been collected for six years from 2000-06. Pre-merger and post-merger financial ratios have been examined using paired sample t test. The results of the analysis reveal that there is significant difference between the financial performance of the companies before and after the merger.

Panayiotis Liargovas and Spyridon Repousis (2011) examined the impact of Greek mergers and acquisitions on the performance of the Greek Banking Sector during the period 1996-2009. With the use of event study methodology, they



Figure 1: Number of M&A Deals in IT for the Period from 1998 to 2013 (In %)



Figure 2: Number of M&A Deals in ITes for the Period from 1998 to 2013 (In %)



Car (In %) Of Companies during Pre and Post Announcement Period for the Window Periods

Table 1: CAR (in %) Of Companies under Information and Technology

Name of the company	CAAR					
	Pre Announcement period			Post Announcement period		
	5	15	30	-5	-15	-30
Accel Transmatic Ltd.	-3.5	-6.03	-23.4	-3.2	-9.3	-12.0
Ajel Ltd.	2.1	-8.05	-15.9	2.8	6.3	46.7
Datamatics Global Services Ltd.	-2.6	-14.9	-25.3	-4.4	-20.5	4.6
Geometric Ltd.	1.76	8.14	-1.3	1.9	-5.8	10.2
Igate Global Solutions Ltd.	2.09	-3.87	9.7	-702.5	-668.9	15.8
Kaashyap Technologies Ltd.	11.2	12.94	1.4	11.3	14.8	59.9
Mastek Ltd.	6.08	-9.94	-23.1	-8.2	-17.3	-27.5
Mphasis Ltd.	-8.5	-4.01	-3.5	7.8	-9.6	-2.3
Onward Technologies Ltd.	-11.9	-18.8	-25.8	-6.3	-11.8	-20.5
Sanraa Media Ltd.	-10.7	-8.25	-24.8	-0.1	-26.9	-58.4
Secure Earth Technologies Ltd.	18.04	65	45.8	5.2	9.3	-0.5
Helios & Matheson Information Technology Ltd.	2.09	-3.87	9.7	-5.5	28.1	15.8
Infotech Enterprises Ltd.	51.5	-8.49	91.4	-37.4	-23.7	68.0
Wipro Ltd.	-3.2	-6.08	-19.2	-10.1	-19.9	-17.4
3I Infotech Ltd.	13.45	29.76	60.4	8.9	25.5	34.9



Advent Computer Services Ltd.	4.04	-5.35	0.0	1.3	-8.4	-21.1
Aftek Ltd.	0.59	-0.85	0.3	0.6	5.4	12.2
Aurionpro Solutions Ltd.	-4.9	-9.64	-31.7	3.3	-1.2	-5.5
Birla Shloka Edutech Ltd.	-9.52	-3.4	-18.5	25.3	12.3	-6.0
Blue Star Design & Engg. Ltd.	-10.4	-6.35	11.1	2.5	-0.9	-7.8
Commex Technology Ltd.	-5.1	-20.3	-11.5	-13.4	9.3	13.3
Core Education & Technologies Ltd.	1.07	-0.65	3.2	0.5	22.5	28.1
Danlaw Technologies India Ltd.	8.38	-11.1	-34.4	-1.6	6.5	-0.5
Firstobject Technologies Ltd.	-10.1	-23.9	-2.8	-27.7	-33.6	-37.2
Glodyne Technoserve Ltd.	0.2	0.17	5.0	0.3	-14.9	-21.5
Intellvisions Software Ltd.	-2.91	-15.6	-32.7	17.3	21.5	16.2
Interworld Digital Ltd.	-15.6	-26.3	-54.0	-0.6	-21.7	-3.2
Nimbus Technologies Ltd.	1.56	6.14	7.6	-10.8	1.8	-7.9
Odyssey Technologies Ltd.	8.64	8.43	10.3	-7.2	-21.2	-33.1
Omni Ax`S Software Ltd.	-32.6	-8.18	-10.1	-10.0	-21.2	-5.8
Panoramic Universal Ltd.	-5.5	1.14	-0.6	13.4	0.4	3.0
Quintegra Solutions Ltd.	-5.85	-11.5	-28.9	-7.7	27.3	35.3
Tutis Technologies Ltd.	-0.99	-0.52	-4.4	0.3	8.1	17.0
Ace Software Exports Ltd.	-1.88	30.9	14.7	8.9	25.5	34.9
Info-Drive Software Ltd.	22.79	43.64	75.0	22.2	21.6	52.7
Logix Microsystems Ltd.	-7.03	5.89	-10.2	6.8	4.9	-9.3
Nucleus Software Exports Ltd.	38.28	39.85	45.5	23.0	19.9	33.8
Ontrack Systems Ltd.	1.49	-4.86	-4.5	10.0	4.2	-10.9
Oracle Financial Services Software Ltd.	-5.5	-26.1	-37.9	0.0	-9.1	-12.5
Patni Computer Systems Ltd.	-1.9	-3.4	-24.9	2.5	-8.8	-4.3
Prithvi Information Solutions Ltd.	-8.3	-20.0	-19.0	-3.2	-10.8	-5.5

The results of Pre and Post period of CAR are analyzed in order to examine the impact of M&A on the Shareholders wealth of the 41 acquiring companies Under IT sector. The Table 1 depicts that Secure Earth Technologies Ltd, Infotech Enterprises Ltd, 3I Infotech Ltd, Info-Drive Software Ltd, Nucleus Software Exports Ltd were the only companies which did not have any negative CAR values for all the post announcement window periods signifying that the companies were successful in adding value to their Shareholders wealth.

For the last window period of 30 days for its Pre period Infotech Enterprises Ltd. gave 68.0% the highest return to its shareholders followed by Infotech Enterprises Ltd (59.87%), Info-Drive Software Ltd.(52.72%). Accel Transmatic Ltd, Mphasis Ltd, Onward Technologies Ltd, Sanraa Media Ltd, Wipro Ltd, Aurionpro Solutions Ltd, Birla Shloka Edutech Ltd, Firstobject Technologies Ltd, Interworld Digital Ltd, Omni Ax`S Software Ltd, Oracle Financial Services Software Ltd, Patni Computer Systems Ltd, Prithvi Information Solutions Ltd. are the companies which continued to have negative returns before as well as after the merger.

Igate Global Solutions Ltd, Secure Earth Technologies Ltd, Glodyne Technoserve Ltd, Odyssey Technologies Ltd, The companies which had negative values in the Pre period but later in the Post period it turned positive. This indicates that the Shareholders wealth appreciated due to the Merger and acquisition by the companies.

Table 2: CAR (in %) Of Companies under Information and Technology enabled service sector

Name of the company	CAAR					
	Pre Announcement period			Post Announcement period		
	-5	-15	-30	5	15	30
Aegis Ltd.	0.8	-11.7	-30.2	-4.8	-0.2	-18.0
Allsec Technologies Ltd.	-2.2	-6.0	-12.6	-1.9	-6.2	-12.4
Accentia Technologies Ltd.	14.3	21.0	10.4	-9.6	-5.1	1.7
Axis-I T & T Ltd.	16.2	61.8	69.6	23.5	42.2	44.2
Tricom India Ltd.	-6.4	4.7	29.8	1.6	45.3	46.6



The above Table represents the returns earned by the companies in the pre and post merger period that have been merged under ITes sector. In the ITes Sector total 3 companies are showing negative returns. Aegis Ltd and Allsec Technologies are the two companies which continued to have negative returns in the pre and post merger period. Whereas companies like Axis-I T & T Ltd and Tricom India Ltd. showed continuous positive returns. Tricom earned highest return of 46.60% in the post merger period. Axis-I T & T Ltd earned highest return of 69.605 in the pre merger period which eroded to 44.23 in Post merger period.

Findings and Conclusion

- For the period from 1998 to 2013 companies under IT sector witnessed more mergers as compared to that of companies in ITes sector.
- Returns of companies under ITes sector improved after merger whereas IT sector companies did not witness improvements after merger.
- Acquiring companies were not able to add value to the Shareholders wealth in Post Mergers and acquisitions announcement period.
- Merger and acquisition has no effects on long term wealth creation for the shareholders.
- This study examines the impact of mergers and acquisitions on the stock prices of the acquiring firms in the IT&ITES sector for the period 1998 to 2013. The scope of this research is limited to 46 firms due to constraints on the availability and completeness of data.

Conclusion

The Caar calculation analysis results shows that majority of the companies under IT and ITes sector earned negative returns in the post merger period, it can be concluded that the majority of the acquiring companies in IT sector were not able to add value to the Shareholders wealth in Post M&A announcement period. But returns earned by the shareholders of three companies under study in ITes sector improved in post merger period.

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