

## Short-term and Long-Term Market Reaction to M&A:

### Evidence from India<sup>1</sup>

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Mergers and Acquisitions (M&A) are an important avenue by which firms invest and grow. Firms argue that combining the acquiring and target firms results in synergies that enhances shareholder value. We examine the long-term performance of domestic and cross-border acquisition decision of Indian firms in the sixteen-year period from 2001 to 2016, a period encompassing the early liberalization period in India, the years of the financial crisis, and a post crisis recovery period. Acquisition activity, both domestic and cross-border increased over the period. Stock markets react to announcements of deal activity, passing their judgement on whether the acquiring firms gained in the transaction. If the acquiring firms capture any benefit of the synergies of the transaction, markets will react positively with a boost in the stock price of the acquirers. On the other hand, if the acquiring firms got what they paid for, or indeed overpaid for the target, we would expect an insignificant to negative market reaction. We therefore measure the market's reaction to deal announcement, i.e. the *announcement effect*, by calculating the short-term Cumulative Abnormal Return (CAR) around the announcement date, to gauge the market's reaction to transaction and infer how the market received the transaction. We find that markets react positively to M&A announcements both domestic and cross-border. In the absence of an independent valuation of the target firm and acquisition synergies, a complexity arises in interpretation the market reaction to the announcement of an acquisition. If markets react positively, does it signal a euphoric response to the acquisition or does it signal an accurate valuation of expected positive synergies? To disentangle these effects we examine the subsequent long-term buy and hold abnormal returns (BHAR) in conjunction with the short-term announcement effect. If the long-term BHAR is significantly positive or negative following the acquisition, it would imply that all information was not captured in the CAR at the time of the announcement. We also present some of the first evidence on long-term returns for acquisitions by Indian firms. We find that the long-term buy and hold returns (BHAR) are not significant. These results suggest that Indian markets are efficient and are

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accurately able to judge the benefits of M&A transactions without a subsequent market correction. We also find that the operating performance of Indian acquirers are not abnormal. Cross-sectionally, firms with a long-term view, as proxied by their better governance gain from acquisitions over the long-term.