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WHY DO ACQUIRER FIRM RESTRUCTURE TARGET FIRM IN THE POST MERGER? A DESCRIPTIVE STUDY OF SELECTED INDIAN MERGER CASES

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Abstract:

Why do target firms restructure after merger: A study of selected Indian Mergers cases entitled study throughs light on Indian merged companies who all are engaged in several restructuring activities in the post-merger period viz., Post-merger debt restructuring : includes conversion of debt into equity, redemption of debt, injection of new class of debt capital etc, Equity restructuring: involving introduction of new class of equity, conversion of equity into debt, buy-back of shares ,bonus issue , shares splits etc and Management restructuring includes replacement of inside management by outsider management vice-versa and other type of restructuring includes Asset sell-off, spin-offs, split-ups and divestiture, corporate board-restructuring etc. The study investigates whether acquired companies keep target company passively or it will make changes in target companies? If the answer for the said question is yes, then researcher named those changes itself as restructuring and to know the short-term effect of restructuring, the researcher used Event Study-Market model approach to identify the market reaction on the said event.

Keywords: Merger & Acquisition, restructuring, Acquirer, target companies, post-merger performance, Event study.

Introduction:

Merger plays vital role in the corporate world. M&As are the strategic tools used by the firms to grow rapidly and abundantly. Merger enhances the wealth of stakeholders in one or in other ways in the long-run and it will have synergistic benefits. Post-merger restructuring includes redeployment of assets and liabilities of target firm to utilise its productivity to the fullest possible extent, restructuring of target firm after merger will have so many benefits that is empirically proven in our study and the post-merger restructuring includes redesigning capital structure of target firm, reallocation of asset base , redefining the human resources and it will also include closure of some plants of target firm if loss making unit and capacity building activities etc such restructuring will redefine the success story target firm.

Erel, Jang &Weisbach (2015) studied the post-merger financial constraints of target firm by taking 5185 European M&As occurred between 2001 to 2008 and found that financial constraints of target firms reduced after merger as acquire company restructure the financing policy and investment policy, the study found that financial constraints are reduced but extent of financial restructuring is not found and investment policy improved i.es investment to total assets increases by 1.56% to 2 % following acquisition.

Review of literature:

1. Maksimovic, Phillips & Prabhala(2010) examine plant-level restructuring after merger and acquisitions, found that extensive post-merger restructuring takes place & acquirers sell 27% and close 19% of the target firm plants within 3 years of acquisition.
2. Gehrke et al (2021) analyse the restructuring of the labour force (Manpower-restructuring) The study found that employee turnover is large during the post-merger period because of more employee leave the merged entity voluntarily.
3. Smeets, Ierulli & Gibbs (2016) examine post-merger organizational integration workforce turnover rate of acquiring firm was 45% and that of target firm was 55%.
4. Lagaras (2017) examine post-merger labour involuntary separation is high as 5.4% due to problem of workforce overlap and acquirers’ cost -saving synergy plan.
5. Malikov, Demirbag, Kuvandikov & Manson (2021) found an average labour downsizing is around 4%.
6. Clark & Ofek (1994) The researcher found that 23% of sample entity are filed for bankruptcy and 2.94% was liquidated, 13.15% sample are disinvested or sell-off target for a huge loss. 32% target firms are distressed and restructured successfully in the post-merger.
7. Kaplan & Weisbach (1992) examine 43.9% samples were divested after merger.
8. Martin & McConnell (1991) found that top executive turnover after merger is around 41.9% and annual turnover rate is 9.9% after merger.
9. Li, X. (2012) analysed that post-takeover target closure is around 2.5%.
10. Brown & Medoff (1988) the study found that wage restructuring 5% and employment changes i.es employment restructuring accounts for 5% reduction-9% increase.

Data Description

The data used in this study was obtained from CMIE prowess data base. The required data is also obtained from yahoo finance and BSE official website, respective websites of companies are also used. The data set includes selected Indian M&A cases occurred from 2000 to 2021 which contained both stock and cash financed 86 merger and acquisitions(Research undertaken for whole 86 cases, here mentioned 15 merger cases only due to space constrain). The data set excludes cross-border and financial companies, NBFC from the sample set as governing rules and regulation for financing companies are differs.

Table 1 showing year-wise merger cases.

Year	Stock mergers	Cash merger	Partial cash and stock merger	Total no of merger
2000-2005	7	2	3	12
2005-2009	6	3	2	11
2010	1	1	1	3
2011	4	2	2	8
2012	5	1	1	7
2013	5	2	0	7
2014	4	0	2	6
2015	2	3	2	7
2016	3	2	1	6
2017	1	3	2	6
2018	1	2	1	4
2019	1	1	1	2
2020	3	1	1	5
2021	2	0	0	2
Total	45	23	18	86

Source: CMIE prowess data base.

In the final sample Indian M&As were considered. From the sample data, it was found that stock merger predominant over cash merger. It is found that acquirer uses stock merger to finance the M&As as it will benefit the acquirers from borrowing funds and paying borrowing cost (interest expenses).

Table 2 showing types of mergers

Types of mergers	**No. Of merger**	**%**
Cash merger	45	51.72414
Stock merger	23	26.43678
Cash/Stock	18	21.83908
Total	86	100

Table 2 shows Cash merger dominate over different type of merger with 51%, followed by stock merger with 26% and merger financed by both cash and stock are 21% represents cash merger as it will provide immediate liquidity to the target company share holder.

The descriptive and case study methodology has been used in the research to analyse the post-merger restructuring of target firms.

Objectives

The objectives of the research are:

1.To study the post-merger restructuring of Target company followed by M&A.

2.To analyse why do acquirer restructure their target in the post-merger period.

Table 3 representing the empirical evidences of: post-merger restructuring of Target company (selected samples).

Sl.	Acquirer company	Target company	Restructuring followed by M&A
1	Hindustan Unilever Ltd.	Bon Ltd. [Merged]	Closure of plant due to labour issue
2	Elgi Rubber Co. Ltd.	Treadsdirect Ltd. [Merged]	De-merger of Treasdirect ltd business
3	Jaiprakash Power Ventures Ltd.	Bina Power Supply Co. Ltd. [Merged]	Sell-off
4	Tata Steel Ltd.	Centennial Steel Co. Ltd. [Merged]	Capacity expansion
5	I V R C L Ltd.	I V R C L Assets & Holdings Ltd. [Merged]	Equity dilution and asset sell-off
6	Kinetic Engineering Ltd.	Kinetic Motor Co. Ltd. [Merged]	Hived-off (Asset sell-off)
7	Titan Company Ltd.	Tanishq (India) Ltd. [Merged]	Closure of Tanishq and transpiring business to titan
8	Welspun Infratech Ltd. [Merged]	Welspun Infra Developers Ltd. [Merged]	Entire stake of Welspun infra developers ltd in Welspun Infratech ltd stand cancelled
9	Empee Sugars & Chemicals Ltd.	Empee Distilleries Ltd.	Entire stake of Empee Distilleries ltd in Empee sugars and chemicals ltd stand cancelled
10	Genus Power Infrastructures Ltd.	Genus Paper Products Ltd. [Merged]	Demerger
11	J S W Steel Ltd.	J S W Ispat special products Ltd. [Merged]	Asset sell-off
12	Coromandel International Ltd.	Liberty Phosphate Ltd. [Merged]	Dissolution
13	Coromandel International Ltd.	Liberty Urvarak Ltd. [Merged]	Dissolution
14	N H P C Ltd.	Lanao Teesta Hydro Power Ltd.	In the post-M&A period new capacity expansion activity has been undertaken in the target firm.
15	Steel Exchange India Ltd.	Simhadri Power Ltd. [Merged]	Asset sell-off

Source: Authors own study

Researcher undertaken case study of 86 companies but here mentioned the sample work of 15 companies only. Table 3 represents empirical evidence of post-merger restructuring, acquirer companies have undertaken different types of restructuring strategies followed by M&A.

Table 4 showing types of restructuring undertaken by the acquirer co in their respective target firms

No	Type of Restructuring	No of companies undertaken restructuring followed by M&A	%
1	Plant closure	10	11.6
2	De-merger	16	18.6
3	Asset sell-off	14	16.2
4	Equity restructuring	5	5.8
5	Capacity Expansion	5	5.8
6	Dissolution	11	12.7
7	De-listing	2	2.3
8	Listing as separate independent co	9	10.4
9	Spin-off	4	4.6
10	Debt-restructuring	4	4.6
11	Board restructuring	1	1.3
12	Management Restructuring	1	1.3
13	Manpower restructuring	1	1.3
14	Diversification	3	3.5
	Total	86	100

Source: Authors study

The above table represents, different kind of restructuring strategies undertaken by the acquirer companies in their respective target firms. Among the sample firms 18.6% companies have undertaken De-merger (Merged firms has been separated into 2 different independent companies after completion of merger event or part of target firm separated as independent separate unit etc.) as the key restructuring strategy to unlock the value of a target firm followed by 16.2% sell-off, 12.7% dissolution, 11.6% plant-closure strategies and 1.3% board restructuring, 1.3% management & 1.3% manpower restructuring are the least used strategies, these strategies are drivers to unlock the hidden potentials of a target firm in the post-merger period.

Why Acquirer company restructure target firm in the post-merger period?

As we justified our answer with our research study that, most of the acquirer company restructure their respective target in the post-merger period and to prove the same evidently, we have conducted study on 86 merger cases.

following are the some of the major reasons identified by the researcher

Post-Merger Target-Restructuring Drivers/Motives;

1.Achieving High Growth Rate
2.Least-Cost

3.Competitive and Comparative Benefits

4.To Make Use of Hidden and Unexplored Resource of Target Company

5.Strong Vision of Acquiring Company Manager Towards Target Company

6.Optimum Utilisation of Available Resources /Economies of Scale and Scope

7.Reducing Dubious Activities and Obtaining Synergy Benefits.

8.To Focus on Core business/Hive of non-core business.

9.To become the efficient player in their respective industry.

10.To make target company self-reliant

11.To unlock the hidden wealth creating capacity of target, which is not known to target firm.

Post-Merger Restructuring Process includes the following crucial stages

Adding, Redeploying and Recombining, Substituting, Deletion, Alteration of Existing Structure, Changes in: any Policy, Process and Resources of a Target Company mean it as Restructuring

Post-Merger Restructuring Outcomes

Value Creation Through Synergy includes the following

1. Operational synergy
2. Marketing Synergy
3. Revenue Synergy
4. Financial Synergy
5. Cost Synergy
6. Savings on Human Resources Cost
7. Savings on Acquisition of Target Technology
8. Cost Savings on Administrative Work/Management Efficiency
9. Cost Savings in Distribution Network etc.

Findings;

1.Researcher found that post-merger restructuring impact positive effect on stake holders of both target and acquirer company in terms of wealth maximization.

2. There are a positive and significant post-merger changes- that post-merger restructuring enhances the overall performance of target as well as acquirer company.

3. The study found that acquirer restructure target in the way that improves the competitive and comparative advantage of merged entity.

4. The post-merger restructuring is the key to unlock the hidden potentials of both Target & acquirer firm.

5.The post-merger restructure reduces dubious activities there by reduces cost i.e. Cost savings

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