ISSN 0975-3311
Ushus JBMgt, 10, 1 (2011) 83-98
ISSN 0975-3311 | https://doi.org/10.12725/ujbm.18.6

LEVERAGING THROUGH ACQUISITIONS – A STUDY ON INDIAN IT COMPANIES

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ABSTRACT

This research measured the impact of acquisition on acquiring company with the aid of gearing effect created by them in the form of market capitalization. Four major acquisitions in Indian IT sector made during the year 2008-09, were analysed to find out the transformation of risk, co-integration strategies, velocity of spill overs in capital market and payoff effects. The results favours that the corporate synergies created by the acquisition leads to increase in book value, increase in returns, increase in market price and decrease the systematic risk. The output of the research contended that the gearing effect created by the client acquisition and technology transformation, leverage the market capitalization by 40% and increase the market spread of the acquiring company within one year of acquisition.

Key Words: *Co-integration, Spill-over effect and Beta co-efficient.*

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1. Introduction

The increased competition in the global outsourcing market has prompted the Indian IT companies to go for mergers and acquisitions as an important strategic choice. Mergers and acquisitions affect the balance of economic power and establish financial strategic re-engineering policies. It is the strategic decision taken for maximisation of a company's growth by enhancing its services and marketing operations. Overseas acquisition activity of IT (Information technology) and ITES (IT Enabled Services) firms are being propelled by the need to have a local presence in the overseas markets for effective exports of software and its related services. The basic rationale for firm globalization by the means of overseas acquisition is to increase or protect profitability and /or capital value through exploiting the existing competitive advantage or safeguarding, increasing or adding to them. (UNCTAD 2004). The Indian IT companies are already having a strong presence in foreign markets. During the year 2008, mergers and acquisitions came down considerably with companies busy on survival mode rather than getting into expansion. The main reason for the decrease in acquisition was the lack of liquidity. It particularly affected the cross-border deals. It was only the companies with cash in hand that went hunting for targets. The domestic deals in the sector have been valued at a discount to overseas acquisitions. Due to competitive advantage of human resource utilization, many global firms have shown keen interest in expanding inorganically in India. Indian IT firms are expanding their territory by acquiring companies having strong presence of technology up-gradation and customer base. The strong corporate synergies created by the IT companies, enables them to manage the big acquisition deals and reduce the risk in limited period of time. The increased corporate confidence created by the Indian regulatory authorities is also reflected in this inorganic growth binge. In this context, the research was conducted to study the impact of acquisition. The research enables the acquirer firms to calculate the spill over effect in their share price movements. The research articulate the effect of acquisition in the context of high volatility in profitability of IT firms during pre and post acquisition period. The leverage effect of acquisition has been stretched through market capitalization values in this research.

The strong corporate synergies created by the IT companies, enables them to manage the big acquisition deals and reduce the risk in limited period of time.

2. Review of literature

The transnational evidence on mergers and acquisitions is quite clear about the value-reducing nature of the average acquisition, both on announcement (for the acquirer) as well as in the long-run. But in India, the effect of acquisition on the market value of the acquirer company is significantly positive. However, the statistical significance of the positive long-run effects disappears when corrected for industry effects. The acquirers do considerably worse compared to their performance, but the markets fail to perceive them as such on announcement (Rajesh,2007). Pramod (2007) research found that there are minor variations in terms of impact on operating performance, following mergers, in different industries in India. In particular, mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry. The pharmaceuticals, textiles and electrical equipment sectors witnessed a marginal negative impact on operating performance (in terms of profitability and returns on investment). Vardhana (2001) research on corporate performance affirmed that there are no significant differences in the financial characteristics of the two firms involved in merger. Wendy (2000) research explored that acquisition is essential for IT firms to strengthen the supply-side of the global IT outsourcing marketplace and to have the strategic positioning among the IT suppliers. Cesar (2004) research found that merger and acquisition is typically followed by higher green-field investment, while the reverse is true only for developing countries. Rikard (1999) research discovered that the success of acquisitions is gauged by the synergy realization rather than market return. But the present research measures the spill overs created by the acquisitions in capital market and its impact on corporate synergies.

3. Objectives of the study

The primary objective of the research is to explore the significance of spill over effects of the share price movements of the acquirer firms in the Indian IT sector during the period 2008-09. To satisfy the primary objective, the following queries have been answered in the research.

- What is the co-integration level of the share price movements of the acquirer firm during pre and post acquisition period?
- What is the velocity of spill overs in price dependencies created due to acquisition?

- What is the switch over effect created in profitability of the acquirer firm due to acquisition?
- What is the volatility of acquiring company's share and its equilibrium level in capital market owing to acquisition? and
- How for the systematic risk transformed between pre and post acquisition period?

> **Rikard (1999) research discovered that the success of acquisitions is gauged by the synergy realization rather than market return.**

4. Methodology

The research focus on four acquisitions made during the year 2008-09. It includes MindTree-Aztecsoft deals that stitched at 1.4 times, HCL-Axon deals that stitched at 2 times, Tech Mahindra-Satyam Computer Services deals that stitched 0.5 times and Wipro- Citi Technology Services (CTS) deals that stitched at 1.6 times than the target companies' revenues. The financial data were collected from the audited financial statements of the respective organization from 2005 to 2010. The share price movements are identified based on the market price of the share prevailing in Bombay Stock Exchange. To measure the price dependencies, BSE-IT index has been considered as the base for independent variable determination. Market value added approach has been used to study the effect of acquisitions. The systematic risk (beta value) was calculated based on the capital asset pricing model. Paired comparison test is done to identify the validity of the deviations between pre and post acquisition ratios. ADF and PP tests are applied to find out the unit root among the share price dependencies. Johansen tests are used to measure the co-integration of share price movements with BSE-IT index. A vector error correction model is created to estimate the share price movements during pre and post acquisition period. Multivariate GARCH modeling is employed to find out the velocity of spill overs from pre to post acquisition period.

5. IT related Acquisitions

The economic melt-down being witnessed by the IT industry during the period 2007-09 has thrown open opportunities for companies to scout for acquisitions at discounted valuations. In 2007, two large acquisitions were made. Wipro acquired Infocrossing for $600 million and Firstsource Solutions acquired Med Assist for $330 million, which were valued at 2.6 times and 3.3 times than the target companies' revenues respectively. During 2008, five large deals were stitched. 3i Infotech acquired US-based Patrons for a measly 0.7 times than its annual revenues. Tech Mahindra managed to lap-up the scam-ridden Satyam Computer Services at 0.5 times at the latter's anticipated annual revenues. In the Indian scenario, Citigroup Global Services (CGSL), which was bought-out by TCS, and Citi Technology Services (CTS), which was acquired by Wipro were valued at 1.8 and 1.6 times their revenues respectively. But in the case of overseas acquisitions, Axon and Infocrossing, which enjoyed EBIT margins of just 4 and 14.4 percent respectively, were valued at 2.6 and 2 times their annual revenues. MindTree acquired TES-Purple vision in 2007 for $6.55 million, Aztecsofit in 2008 for $90 million, Kyocera Wireless Ltd in 2010 for $6 million and 7Strata for Rs.7.2 crores. Wipro Ltd. has made 26 acquisitions, 7 divestitures and has taken stakes in 4 companies from 1993 to 2010. HCL Technologies Ltd has made 22 acquisitions, 9 divestitures and has taken stakes in 7 companies from 1993 to 2010. On 15 December 2008, it acquired Axon Group, the largest acquisition in the history of the Indian IT industry, surpassing Wipro's $600-million acquisition of Infocrossing in 2007. All these acquisitions not only enriched the book value of the assets of the acquiring companies but also enlarged the customer segments and created a transformation strategy among the IT firms. The revenue per employee increased twice within a year. The Indian exchequer also earned more than $10 million from these acquisitions. The market capitalization created by the acquiring companies surged the Indian capital markets' indices. These acquisitions surpassed the economic downturn also.

> **All the IT related acquisitions not only enriched the book value of the assets of the acquiring companies, but also enlarged the customer segments and created a transformation strategy among the IT firms.**

6. Characteristics of sample acquisitions

The HCL-Axon deal represents the largest overseas acquisition by an Indian IT firm. HCL offered 650 pence per share for Axon that puts the enterprise value of the SAP consultant at £441.1 million ($816 million). This was funded partly by a short-term loan of $585 million. The combination of the two, aims to create a business accounting for 25 percent of HCL's revenues. The acquisition enabled HCL to get more technology consultancy services in the UK, as well as a large chunk of revenue from Europe. HCL stands to gain Axon's expertise in products developed by SAP AG, the world's biggest maker of business-management software.

MindTree, which has bought four companies in the last eight years, acquired 32.57 per cent stake in Aztecsoft from e4e Holdings, Mauritius, in an all cash deal for around Rs 117 crore (Rs 1.17 billion). Mindtree Ltd paid Rs 80 per share to the engineering software services and research and development firm Aztecsoft. The acquisition was funded through its internal cash reserves. Because of the acquisition, the Mindtree clients increased from 180 to 250. About 80 per cent of Aztecsoft revenues, which offers outsourced product development (OPD) and testing services, come from the US. MindTree, is quite strong in Europe and Asia Pacific region. Hence these acquisitions provide the company with an edge to establish base in those geographies.

Tech Mahindra, via its subsidiary Venturbay Consultants acquired a 31 per cent stake in Satyam Computer for about Rs 1,756 crore. In April,2009 , it had launched an open offer to buy up to 20 per cent at Rs 58 a share and it received poor response from public shareholders. Only 420,915 Satyam shares or 0.04 per cent stake were tendered in the offer as the offer price was 30 per cent below the prevailing market price at that time, thus necessitating the beleaguered IT firm to make a preferential allotment to Tech Mahindra. Satyam, rebranded as Mahindra Satyam, had received the Company Law Board's approval for allotment of an additional 19.86 crore shares at Rs 56 a piece on preferential basis, aggregating to Rs 1,112.48 crore. The interest cost of Tech Mahindara increased by 250%. Immediately after the acquisition, Shares of Satyam closed at Rs 45.55, unchanged, while Tech Mahindra was down 0.58 per cent at Rs 333.65 on the BSE. The subdued trend in the Satyam stock can be attributed to dilution in the earnings per share due to capital expansion. The acquisition stopped the scam-ridden Satyam client attrition rate.

India's third largest IT company, Wipro Technologies has acquired Citi Technology Services (CTS) for approximately Rs 600 crore ($127 million) as its 16th acquisition. The CTS acquisition enables Wipro to enhance its remote infrastructure management capabilities and domain expertise. The services agreement between Wipro and CTS is expected to accrue at least $500 million during the six years. Wipro already gets the largest proportion of revenues (27%) from the banking, financial services and insurance sector (BFSI), and this segment has been under severe pressure. Due to the acquisition, Wipro estimated that it revenue proportion will increase by 32% in BFSI sector and have strong holding in 32 countries.

All the deals considered the client acquisition and technology as the core competencies in acquisition.

All the deals considered the client acquisition and technology as the core competencies in acquisition. The target company asset quality, human resources and upside flexibility are the second important values considered by the acquirers. Based on these core values, the acquisition synergies are created by the acquiring company to increase the market share globally.

7. Co-integration with BSE- IT index

Since BSE-IT index represents the average market price of the Indian IT related companies shares, it is considered as the base value. The volatility in share price is measured from the BSE-IT index. To find out the spill over effect of acquisition as compared with BSE-IT index, co-integration test has been carried out. Johansen and Johansen derive maximum likelihood estimators of the co-integrating vectors for an autoregressive process with independent Gaussian errors and a likelihood ratio test for the number of co-integrating vectors. Since Johansen test is used to determine whether the series stand in a long-run relationship, it is applied to find out the co-integration between pre and post acquisition - share price movements with the BSE-IT index. It enables to estimate and test the equilibrium relationship among non-stationary series while abstracting from short-term deviations from equilibrium. The standard Augmented Dickey-Fuller (ADF) test and Phillips-Perron(PP) tests were performed to assess the degree of integration of the prices. Augmented Dickey Fuller coefficient (Dickey Fuller 1979) critical values were used for the unit root test. Lags lengths for the ADF unit root test are selected according to Akaike and Schwarz criteria. The bandwidths for the PP test are determined by the Newy-West criteria. The null hypothesis that '$\rho = 0$' is tested by ADF test. To test the unit root under PP regression test, null hypothesis that '$\alpha=1$' was established. Table-1 presents the ADF and PP test results.

Table 1 : Unit Root Test for Share Price Movements

TThe critical value of ADF and PP tests, at 5% level of significance is -2.86. All the variables used in the empirical analysis have a statistic that exceeds the critical value of the test at the 5% significance level. Both ADF and PP test signifies that the log price series contain a single unit root at 5% level of significance, implying fact that the log price series of the sample scrips are non-stationary. Hence the share price movements of the four companies share long-run price equilibrium and are affected by one common stochastic factor.

Given the set of two series, Johansen tests are used to determine the series stand in a long run relationship. The following Vector Error Correction Model (VECM) equation is estimated.

Where X_t is an 2 x 1 vector $(S_t,F_t)'$ of the BSE-IT index and share prices respectively, denotes the first difference operator , ^{a}t is 2 x 1 vector of residuals $(^{a}_{st}, ^{a}_{ft})'$ that follow an unspecified conditional distributed with mean zero and time-varying covariance matrix, Ht. The Π term determines whether and to what extent the system of equation is co-integrated and is known as the co-integrating constant in the VAR system. The critical values of the Johansen multivariate con-integration results are reported in the table-2.

Table-2 : Co-integration tests

The critical value of Trace statistic at 5% level of significance is (Π_0)18.39. The critical value for Max-Eigen test is (Π_0)17.14. There is co-integration between the BSE- IT index and the share prices of HCL and Wipro Ltd after the acquisition deals. There is no co-integration between the BSE- IT index and Tech Mahindra share price. The share prices of Mindtree co-integrated with the BSE-IT index only before the acquisition deal. The volatility decreases after the acquisition in case of HCL and Wipro deals, whereas it increases in case of Mindtree deal. The scam affected Satyam take over has been reflected in the share price of TechMahindra. These variations are due to capital market imperfections. The Mindtree acquisition deals are in continuing nature, where as in TechMahindra swap rate of the remaining 20% stake affected the capital market.

8. Price Dependencies

In the next stage, we investigates the daily price discovery process by exploring the stochasting trend between share prices with the BSE - IT index based on the threshold vector error correction model (TVECM). The collinearity variation between these markets is studied. Opening price and closing prices are included as heteroscedasticity variables to identify the volatility mechanism between these markets. A Vector Error Correction Model (VECM) can lead to a better understanding of the nature of any non-stationarity among the different component series and can also improve longer term forecasting over an unconstrained model. If prices are co-integrated, then causality must exist in at least one direction. Threshold vector error correction model (TVECM) has been created based on the following equation.

... (1)

...(2)

Where as ΔX_t, is the output series from share prices and ΔY_t , is the output series from BSE-IT indices. b_{yi} , c_{yi}, b_{xi} and c_{xi} represents the short-run coefficients. $\varepsilon_{y,t}$ and $\varepsilon_{x,t}$ are residuals. The speed of adjustment in long-run equilibrium due to market information is determined by the coefficients a_x and a_y. When these coefficients are high, adjustment is rapid. Table-3 displays the estimates of the adjustments coefficients obtained by TVECM using equation (1) and (2) and 'F' statistic value.

Table- 3 : TVECM values variance

The error correction is significant in both pre and post acquisition period. The estimated values are tested with the 'F' statistic. The F-statistics is also significant. Hence, it may be conclude that the BSE-IT price leads the price discovery during acquisition and it is considered as the base value.

9. Spill over effects

The TechMahindra and Mindtree share prices are not co-integrated with BSE-IT index. Hence its share prices are highly volatile after the acquisition. In case of MindTree, the news about the next acquisition is having the high impact on the share price. It created market synergism among the stake holders. In case of TechMahindra, it maybe due to unfavourable swap ratio during the time of merger. Since, HCL and Wipro companies' post acquisition share prices are co-integrated with BSE-IT index, spill over effects are calculated only for those companies. The market is free from imperfections for HCL and Wipro shares.

Using the multivariate GARCH model, the pattern of information flow between the share prices and BSE-IT indices are examined. The multivariate GARCH can be expressed as follows:

...(3)

Where as $H_{11,t}$ and $H_{22,t}$, are the conditional variances of the first and second serial orders. $H_{12,t}$ and $H_{21,t}$ are the conditional covariance between the two series. The C_{ij} are elements of a 2x2 symmetric matrix of constants C. The elements a_{ij} of the symmetric 2x2 matrix a_i measure the degree of innovation from market *i* to market *j*. The elements of b_{ij} of the symmetric 2x2 matrix b_i indicate the persistence of conditional volatility between share price and BSE-IT index. The values of b_{11}, and b_{21} for two company prices are listed in Table-4.

Table 4 : Price dependencies

The elements bij of the symmetric matrix bi in the equation (3) states that all of the estimated coefficients are significant. For both company share prices, volatility persistence is high (For HCL: - 0.936 and Wipro = 0.972). Spill over from BSE-IT prices is 0.479 for HCL and 0.56 for Wipro. The output of the analysis suggests that 1% increase in BSE-IT price volatility increased the HCL share price volatility by 0.4%. An 1% increase in BSE-IT price increased the Wipro share price volatility by 0.5.% . Hence, it may be concluded that a normal IT related acquisition creates 40% spill overs in Indian capital markets. If there is an abnormal event, the spill overs will be high. The results should be used with caution by considering the impact of good or bad news about the security.

10. Impact in Financial Statements

HCL- Axon deal has enormous potential - given the complementary strengths of Axon and HCL SAP practice. On account of forex hedging strategies it adopted, HCL suffered a $29.1 million loss. Axon enjoyed EBIT margins of 16.7% in 2007 vis-à-vis 22.2% enjoyed by HCL Technologies in the fiscal year 2008. However HCL reported incremental revenues of $220 million on organic basis for the financial year ending March, 2009.

> **Normal IT related acquisition creates 40% spill overs in Indian capital markets.**

For the fiscal year 2009, MindTree has forecasted that its revenues will grow by 24-29% to $228-238 million. Net profit is expected to grow between 23-29% in the range of $31.7-33.1 million. Aztecsoft reported a net profit of Rs 17.38 crore on revenues of Rs253 crore for the year ended March, 2009. But consolidated net profit rose to Rs103.2 crore for fiscal year 2008. The revenues grew by 28% over the previous year to Rs 767.7 crore.

Tech Mahindra Ltd, announced 5.9% growth in revenue and 1.3% decline in operating profit. This decline in net profit was primarily due to interest costs on borrowings post the Satyam acquisition. The company has a debt of Rs. 2,380.2 crores as of 30th June 2009.

Wipro disclosed a rise in consolidated net profit by 23%. It estimated that the revenue from IT services business including revenues from the acquisition of Citi Technology Services to be approximately USD 1,045 million. According to Wipro sources, the acquisition is expected to generate around $500m in service revenues over period of two years. The table-5 portrays the changes in financial performance during pre and post acquisition.

Table 5 : Financial Performance

The results clearly portrays that the IT related firm acquisition resulted in a positive manner with regard to book value of the firm. All the four acquisitions resulted in an increased book value of 19 % on an average. Except TechMahindra deal, all the other organizations' EPS decreased after the acquisition. This may be due to high cost of debt financing. The return on capital employed increased after acquisition for three firms except for Wipro deal. However, average return on capital employed increased by 6 %. The return on net-worth decreased for three firms. As per the audited statements, only TechMahindra is able to increase its EPS in a leveraged manner - that results in the increase on return on net-worth. Tech Mahindara gained of Rs 7.8 crores on account of foreign exchange. Even though there was a global recession, the IT related firm acquisition increase the book value of the shares and increased the

> **Only after a year of acquisition, the companies earned incremental profits.**

return on capital employed. But they are unable to increase the EPS on the year of acquisition, due to heavy acquisition expenditures. Any how, the other reason for decrease in profitability is due to appreciation of rupee compared to dollar in 2008-09.

The profitability target fixed at the time of acquisition is achieved by the acquiring firms only after a year. Hence one year may be considered as the gestation period in IT related acquisitions.

11. Share price volatility in BSE

For HCL-Axon deal, a majority of Axon shareholders (99.99 per cent) voted in favour of the Indian company's 650-pence a share. The share price of HCL moved up ever, when the company announced the acquisition during December 2008. However it stock fell 8.8 per cent in BSE, when it reported the foreign exchange loss during April,2009. Mindtree acquired 36,441,595 equity shares of Aztecsoft Limited, for a consideration of Rs 2,919,519,314. As at March 31, 2009, the Company holds 79.9% of equity shares based on outstanding issued equity of Aztec. Tech Mahindra shares in BSE went up 19.3 percent at Rs 381.70 rupees, after touching as high as Rs 400 during the announcement of its acquisition process. In pursuant of the share subscription agreement signed by the winning bidder and the board, Tech Mahindra made an open offer of 20 percent at Rs.58 per share for the controlling stake (51 percent). Wipro share price increased by 1.8% in BSE, immediately after the announcement of acquisition. The total volume of shares traded was also increased. Wipro paid $26 million in cash towards premium and $101 million for the assets of CTS in Mumbai and Chennai. How ever the acquirer company share price decreased within a week. Table-6 shows the share price fluctuations held before and after the acquisition in BSE.

Table 6 : Share Price Volatility in BSE

The above table clearly demonstrates that after the acquisition, there is a downtrend in the prices of shares in three deals. The downturn in the IT sector during global crisis accounted for 28%. If global crisis factor is identified as abnormal factor, the downturn is accounted for 14% only. The TechMahindra-Satyam deal taken place after the failure of corporate governance in Satyam. The deal was fixed with 100% disclosure norms.

This leads to a significant change of market price of the share in upward direction. However when paired comparison test is carried for volume of trade in shares between pre and post acquisition periods, there is no significant change in volume except for HCL. Since HCL acquisition is going to add SAP consulting expertise in Europe to HCL's existing services in the US and Asia, its share volume increased. Even though share price increased on the day of acquisition, it decreased on later stages. This is due to event calendaring effect in share market. The under performed shares, after the first six months of acquisition, tends to outperform in later days.

The under performed shares, after the first six months of acquisition, tends to outperform in later days.

12. Measurement of Beta value of volatility

The systematic risk in share price volatility is measured by beta co-efficient using capital asset pricing model. Table-7 demonstrates the beta value during pre and post acquisition periods and its significance is measured by paired comparison test.

Table 7 : Measurement of Beta value of volatility

The above table reveals that the share price volatility bears little relation to the market when compared with the pre-acquisition results. In case of TechMahindra share price, the linearity is measured by the high relationship value with the market price. The systematic risk has increased after the acquisition in three deals. This reflects the high volatility of share prices after the acquisition.

13. Findings

The key ingredients of the acquisition are the relative valuations of the merging firms and the market's perception of the synergies from the combination. The effects of the acquisitions are summarized in table-8.

Table 8 : Impact of Acquisition

The Hubris hypothesis (Richard,1986) has been rejected in case of IT related acquisitions. The acquiring company did not suffer any diminution in wealth because of excess premium paid to targeting company. In three acquisitions, the acquiring company paid high price for the target company. It resulted in increase in EPS after a year of acquisition. There is a reverse relation between the ratio of acquisition and spill over effect. During the process of acquisition the share prices went against the tide. But after acquisition, its flow is quite normal and predictable based on the base index. The IT related acquisition during global recession resulted in an increase in book value, decrease in return on net-worth, decrease in market value and increase in systematic risk. The exception is Tech-Mahindra acquisition. The role of corporate diligence in that acquisition leads to increase in book value, increase in returns, increase in market price and decrease the systematic risk in the year of acquisition. But in long-run it affected the profitability due to high unsystematic risk. The IT sector acquisition enjoyed the benefit of short-term gestation period.

14. Managerial Implications

There is no doubt that the acquisitions leads to increase in book value of the acquiring company. During the process of acquisition, the market prices are highly volatile and it did not coincide with the regular market indices. The acquiring company is ready to pay more for the targeting company, if it technological environment, client base, asset quality, human resources and upside flexibility are exceptionally better than others. Hence the high priced acquisitions created a favourable synergy with the market capitalization. Due to unsystematic risk, the low priced acquisition did not earn high revenue in long run. The continuous acquisitions made by the companies also created high volatility in share price movements. Based upon these findings, we have highlighted the acquisition process needed for an IT company in the exhibit-1.

The acquiring company did not suffer any diminution in wealth because of excess premium paid to targeting company.

Exhibit 1
Anatomy of Decision Driven Acquisition

While projecting the discounted cash flow pattern, the acquiring company has to consider the cost of debt in financing the acquisition and cost of buying. These factors are affected by the interest rate and bid rate. The liquidity is also affected by these factors. After identifying the pay off of the acquisition, the cascading effect has to be identified based on the internal and external factors. The market spread and market capitalization value of the both acquiring company and the target company enables to fix the cut-overs. The asset quality, human resources, upside flexibility, technology and client acquisition of the target company will leverage the acquisition in long-run.

It is the internal synergies of the target company that creates wealth to the acquiring company and not the market capitalization rate of that company.

We strongly believes that the spill over synergies created by the client acquisition and technology transformation, leverage the market capitalization and increase the market spread of the acquiring company within one year of acquisition. The acquiring company has to consider the acquisition process as 'acquiring new capabilities rapidly' to leverage the global delivery model and it is being important from clientele and a signaling effect view point. It is the internal synergies of the target company that creates wealth to the acquiring company and not the market capitalization rate of that company.

15. Conclusion

The corporate acquisitions in IT sectors are having high impact in the market value of the shares. The increased corporate diligence is reflected not only in the increased trade volumes but also in the inorganic growth spree. If global melt down is treated as abnormal item, the spill over due to acquisition results in a change of minimum 33% in book value and leveraged the market capitalization by 40% after the year of the acquisition. This leads to adopt a vertical-based approach to cater the emerging market trend and integration among the core competencies.

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