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# The Financial Determinants of Acquirer Returns

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**ABSTRACT**

Acquisitions are in a rising trend in Indian context. Acquirers go in for acquisitions due to various reasons and researchers have been studying acquirer motives in a large scale. But is their decision to acquire right? Are they in a position to acquirer and have they made the right decisioninselectingthetarget?Thesequestionshaven'tbeengivenattentionintheacquisition literature. Though the financial characteristics of acquirers and targets have been analysed in the literature, the usefulness of these financial characteristics to analyse the decision of acquirers has been undermined in the literature. The objective of this study is to analyse whether acquirers have made the right decision and if they are financially in a position to acquire. Taking into account the financial characteristics of acquirers such as profitability, liquidity, leverage, turnover, free cash flow and sales growth, this study analyses acquirers of their decision to acquire and examines what kind of an acquisition the acquirer is capable of going into and also analyses which of the financial characteristic of acquirers' exhibit more influence on acquirer decisions. Using Binary Logistic Regression, the results of the study suggests that the acquirer decisions such as multiple/single acquirer, private/public acquirer and cross-border/domestic acquirer are most influenced by their financial characteristics than other decisions. The implications of this study are many and it is useful not only to acquirers, but to various parties involved in acquisition such as agents, targets, banks and theinvestors.

**Keywords:Acquisition,Mergers,Financialcharacteristics,Acquirers,Targets,Acquirer Decisions, Deal characteristics, Acquisitionannouncement.**

## INTRODUCTION

Acquisitions have seen a rising trend in India in the past decade. India is becoming a hub for acquisitions around the globe. The recent years have seen Indian companies acquiring foreign companies and foreign multinationals have been interested in acquiring Indian companies. One main reason for foreign companies to buy an Indian company is India's business regulations. India's strict business regulations deter most foreign companies from building an Indian business from scratch (Burr, 2007) which is indicated in the theory of Economies of Scale by Adam's Smith. Also India's resources are of greater advantage that attractforeigncompanies.Companiesseektoacquireorsellforvariousreasonswhichareboth financial and non-financial (Yaghoubi et al, 2016).

ResearchershavetriedtocapturealltheperspectivesofM&Aandoneofthesignificant area is the Valuation of acquirers'. Valuation of acquirers is an important area for research as the share prices are considered to be the present value of future cash flows (Bruner, 2001). Many acquirers go in for an acquisition just to take advantage of the short-term AR generated at the time of announcement. The valuation of acquirers represent the AR that the acquirers' generate on the announcement of an acquisition (Thomas &Cardot,2016).

**The AR that acquirers gain on an acquisition announcement will be the result of the decision that the acquirer takes.**

### ACQUIRERS' DECISION:

Acquirers' decision are the characteristics of the deal that an acquirer chooses to go in for. The characteristics of the deal represents the parameters like method of payment, statusof the target, relatedness of acquirers and targets, the premium paid in acquisitions and the value of the deal. This section discusses the deal parameters used in this research and their expected influence on the market reaction toacquirers.

### The Method of Payment (herein MOP):

Acquirerscanpayforanacquisitionthroughthreemodes:cash,stockoracombination of cash and stock. Research has shown that cash acquisitions are seen as a positive signal in themarketwhilestockacquisitionsareperceivedasnegative.Thisisbecausebiddersusecash

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when they feel that their firms are undervalued in the market and thus signalling their value to the market. While when an acquirer acquires using stock, it signals that the acquirer is unsure aboutthevalueofthetargetandthususesstockinordertoavoidoverpayingforanundervalued target. In the study article by Fuller, Netter &Stegemoller (2002), they quotethat:

> '*the literature suggests that bidders make cash offers when there is high uncertainty of their firms' value, and stock offers when there is high uncertainty of the targets value.'*.

The empirical findings supports the above theory showing that cash acquirers generate positive abnormal returns while stock acquirers generate negative abnormal returns (Fuller, Netter, Stegemoller, 2002; Rani, Yadav& Jain, 2013). Case study analyses shows that acquirersusestockinthecasesofhostiletakeovers(Chatterji&Kuenzi,2001).Duringhostile takeovers the only way to acquire the target is to pay high premiums for the stockholders and acquire the shares of the target companies. In a recent research by Chatteji&Kuenzi (2001), they found that stock acquirers are no longer considered as negative signals in the market. Studies show that stock acquirers are not considered as negative signals in India (Jucunda& Sophia, 2014) which means that western theories may not necessarily hold well inIndia.

**Private or Public status of target (herein P/P):**

The private or public status of the target and their influence on the acquiring firm's shareholdersisanotherfactorforstudy.Oneofthemotivebehindacquirersinacquisitionisto privatise their targets. Studies have discussed on effects of acquirers acquiring private targets, though the area needs more attention. Extent literature analyses the acquirer returns when the acquirer acquires a public target and shows that more than 60% of the acquirers acquiring a public target generates negative returns (Mulherin& Reeves, 2000). Few studies that have analysed the acquirer returns for acquirers acquiring a private target shows superior performance in generating CAR when compared to acquirer acquiring public targets (Chan 1998, Hansel & Lot,1996).

**Cross-border or domestic state of target (herein CBA/Dom):**

Anotherfactorofinterestiswhethertheacquirersacquiresadomestictargetoracross- border target. The factors influencing a domestic and cross-border acquisition vary on a wide scale. When an acquirer acquires a cross-border targets, he is faced with various governance relatedrestrictions,taxrestrictions,demographicandculturalchallenges.Cross-border

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acquirer earn superior significant abnormal returns than negative acquirers (Chari, Omit &Tesar, 2004; Bhagat, Malhotra& Zhu, 2011). Investigating the cross-border acquisitions and the synergies generating out of it has been a significant topic. Indian researchers have also shown great interest recently in the cross-border acquisitions. The superior performance of cross-border acquisitions can be related to the amount of risk taken by the acquirers in the CBA.

**Prior experience of acquirers (herein M/S):**

The prior experience of acquirers and their relation to the abnormal returns around announcementisfoundtobeasignificantfactorintheliterature.Theorysuggeststhatacquirers acquiringmultipletargetsovertimewillexhibitsuperioroperatingperformancethanacquirers acquiringforthefirsttime(Schipper&Thompson,1983;Capron&Pistre,2002).Thissuperior performancemayduetotheexperienceofacquirers'inthepastacquisitionsandtheacquisition expertise that an acquirer would have developed over time. Markets find it easy to trust an acquirer who had already acquired rather than an acquirer who'll be experimenting his first acquisition. Though acquisitions have started to spring up in both domestic and international levels,itisstillneedstobeprobedin.Asacquirershavejustgotdownintheacquisitionspree, the possibilities of multiple acquirers may be less as compared to negative acquirers. But still Kale(2004)foundsupportingevidencethatmultipleacquirershowsuperiorperformancethan single acquirers while Jucunda& Sophia (2014) provide findingssuggesting that there was no difference in returns of multiple and single acquirers. Thus this proves us the necessity of analysing this factor inIndia.

**Relatedness of an acquirer and target (herein R/UR):**

Thenextdealparameterexaminedinthisstudyistherelatednessofacquirerandtarget in an acquisition deal. When an acquirer and target belong to the same industry and business line,itcanbeconsideredasarelatedacquisitionorhorizontalacquisition.Acquirerswhowish to dominate the market by expanding go in for related acquisitions and this is considered as a positive signal in the market. While acquirers seeking to take control of the complete value chain go in for vertical acquisitions. This factor needs to be further probed in and research papers that had analysed this factor found that horizontal acquirers create significant value for acquirers not only in the pre-acquisition period but also post-acquisition (Sharur,2005).

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**Value of the deal:**

The size of the acquisition deal is a significant factor in influencing AR of acquirers and targets. Acquirer gain returns based on how much they pay for the target. If the market feelsthatthetargetsisover-valued,acquirers'havefoundtogeneratenegativereturns.Sizeof the deal can be used as a control parameter to examine the influence of othercharacteristics.

**Premium paid:**

The amount of premium paid for the target firm shareholders to make the acquisition happen influences the acquirer performance in various ways. The acquirers post-acquisition performance partially depends on whether they are able to capture the premium paid in future cash inflows. Thus for an acquisition to be successful, the acquirers need to assess the future incomings from the acquisition and pay the premium in order to avoid losses.

Thus it is these decisions of the acquirers that make that brings them the positive or negative abnormal returns.

**THE PRE-ACQUISITION FINANCIAL CHARACTERISTICS OF ACQUIRERS'**

The pre-acquisition financial characteristics of acquirers reflects the operational performance of acquirers before the announcement of acquisition. **The financial characteristics such as acquirers' profitability, market value, growth, leverage and liquidity**havebeenanalysedintheliterature(Sorenson,2000;Cudd&Duggal,2000)inorder to identify the distinct characteristics which made the acquirers to go in for anacquisition.

The financial characteristics of a firm will play an important role in any investment or strategic decision the firm makes. The literature shows a number of studies trying to identify the financial characteristics of acquirers and the motives which make the acquirers to acquire (Stevens, 1973; Sorenson, 2000; Kumar &Rajib, 2007). The general conclusion of thestudies shows that the primary motive for an acquirer to acquire a target is to take advantage of the financial synergies he may gain through the acquisition (Trautwein, 1990). Trautwin (1990) hassummarizedvarioustheorieswhichmotivatesamanagertomergeroracquire.Accordingly synergiesgotfromatakeovercanbeofthreetypes:Financialsynergies,operationalsynergies and managerial synergies. Financial synergies results in lower cost of capital and one way to achieve this is by increasing the company's size throughacquisitions.

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**Free Cash Flow (herein FCF):**

The free cash flow of acquirers was one of the most important factors discussed in the literature. Jensen (1988) put forward the theory of free cash flows stating that acquirers who perform well before takeovers will generate free cash flows which will motivate them to acquire. But free cash flow is found to have a negative influence on the short-term CAR of acquirers (Stulz& Walking, 1991). This is because when companies generate excess cash flows,theshareholder'sexpecttogetpaiddividendbonusbutgetdisappointedwhenacquirers decide to invest it inacquisitions.

**Leverage:**

Leverage is the debt capacity or the borrowing capacity of the acquirers. Another significant characteristics that motivates acquirer to go in for acquisition is their leverage capacity. Acquirers tend to go in for an acquisition to take advantage of their leveraging capacity. Studies have shown that leverage of acquiring firms increases after acquisition (Ghosh& Jain, 2000; Boatong& Bi, 2013).

**Liquidity, Profitability and Growth:**

Other characteristics such as profitability, growth and liquidity have also shown significant impact on the acquirer returns on announcement (Kumar &Rajib, 2007; Sorensen, 2000, Dutta, 2011). Acquirers with high liquidity have shown a great tendency to go in for acquisition (Borisova, John &Saloti, 2013).

**Size:**

The asset size of the acquiring firm is one another factor that have shown great prominence in almost all the studies (Kumar&Rajib, 2007; Banga& Gupta, 2012). It is seen that acquirers with larger size will have a greater tendency to go in for acquisitions. The influence of these financial parameters on acquirer returns has been significantly proved in many studies (Tjurins&Nitkins, 2011).

Not only influencing the CAR and AR of acquirers, the financial parameters of acquirers also influence the deal parameters or the acquirer decision of acquirers, especially the method of payment of acquirers. **The tax benefits after acquisitions and the market to book ratios of acquirers have found to influence the stock acquirers** in a negative way (Meggison et al, 2004). Tjurins&Nitkins (2011) studied the pre-merger financial state of acquirersontheirmethodofpaymentandabnormalreturns.Theyconcludedthatonthewhole, the pre-merger financial state of acquirers does have an impact on the announcement returns of acquirers. Also the

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acquirer performance like Return on Assets (herein ROA), Return On Investment (ROI) and Return On Capital Employed (ROCE) has found to impact the short- term abnormal returns of acquirers.

**Thus it can be seen that financial parameters not only influence AR of acquirers but also determine their decision making. Thus the objectives of the study are:**

- **To analyse the pre-acquisition financial parameters of acquirers and their influence on acquirerdecisions.**
- **To examine if the financial characteristics of acquirers support their decision toacquire.**
- **To determine the causes and consequences of the acquirerdecisions.**

## THEORY AND HYPOTHESIS DEVELOPMENT

The role of financial parameters together with influencing the acquirer returns but also influences the deal parameters. Especially method of payment is one such parameter which is influenced by the market to book value of acquirers (Rao&Vermaelen, 1997). Studies available shows the influence of size of acquiring firms, leverage and liquidity of acquiring firms as a motive to acquire targets and the reason behind why acquirers choose a specific target (Tzoanas& Samuels, 1972; Sorenson, 2000; Kumar &Rajib, 2007). Thus it can be clearly seen that financial parameters not only influence returns but also influence the formation of deal parameters. Thus it can be hypothesized that:

***H1: The financial parameters of acquirers may influence the acquirer decisions (deal characteristics).***

***H2: The pre-acquirers' financial characteristics' may have a strong influence MOP (Method of Payment) of acquirers.***

***H3: The pre-acquirers' financial characteristics may have an impact on the acquirers' decision of acquiring a private or a public target.***

***H4: Financial characteristics of acquirers may motivate the acquirers' to go in multiple acquisitions.***

## METHODS AND MATERIALS

### Sample Selection

Centre for Monitoring Indian Economy Pvt Ltd (CMIE) database prowess has the data for 21, 575 companies of which 1183 companies are BSE listed acquirers and 4202 are BSE listed targets. Based on the parameter for selection, the study considers acquirers who have

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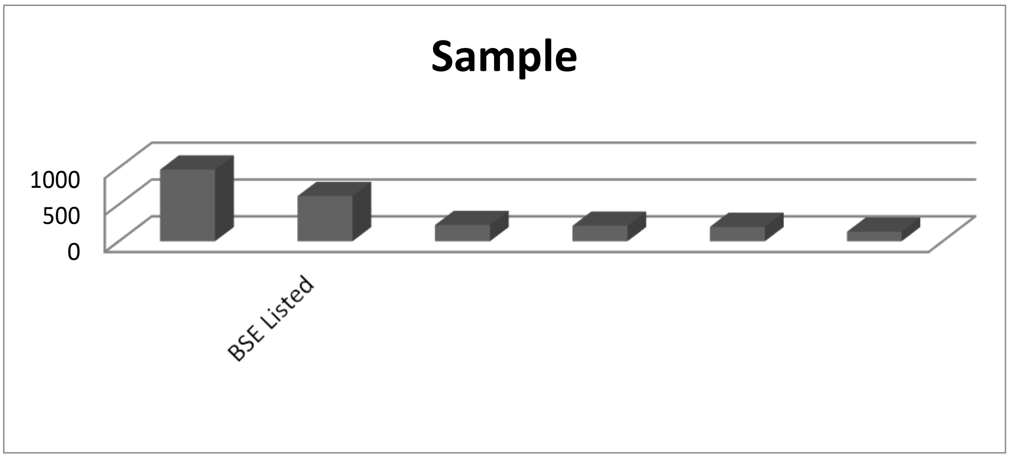
acquiredtargetsduring2014–2016foraperiodoftwoyearstothemanufacturingsector.***Thus the total number of acquirers from 2014 – 2016 is 845 companies. Filtering for BSE listed companies we get 569 acquirers. Considering the manufacturing sector the number of acquirersandtargetsreducesto257acquirers.Acquirerswhichonlyannouncethedealbut fail to consummate the deal were eliminated thus reducing the number of acquirers to 250. Another criterion was that acquirers should not have been targets for another company in the same year which reduced the number of acquirers from 200 to 150 as most of the acquirers have been both acquirers and targets in the same year. Then considering for the companieswithavailablefinancial,thetotalnumberofcompaniesinthesamplereducedto 130. Thus the final sample consists of 130 acquirers.***

**Figure 1 : Selection of sample**




## COLLECTION OF DATA:

### Deal Data :

The deal data include the characteristics of the deal such as method of payment, type of target, prior experience of the acquirer and the relatedness of the acquisition which is also extracted from CMIE.

### Financial Data :

Financial and cash flow data of the acquiring firms were obtained from Centre for Monitoring Industrial Economy (CMIE) two year prior to the acquisition announcement. The timingisrestrictedtotwoyearpriortoacquisitiontocapturetheimmediatechangeinthedebt, liquidity and profitability of the acquiringcompanies.

## INSTRUMENTS / STATISTICAL TOOLS USED

### Binary Logistic Regression Analysis

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Binary logistic regression analysis is used when the dependent variable is binary categorical. In this study, it is used to determine the financial characteristics of deal characteristics of acquirers. Conducting this analysis revealed the significant financial factors that played a vital role in influencing the acquirer decisions (deal characteristics) and also revealed the financial characteristics of acquirers and the extent of acquisitions they can possibly go for.

## VARIABLES IN THE STUDY

**Table 1: Variables in the study**

| Variables selected | Explanation |
|---|---|
| | **DEPENDENT VARIABLE** |
| | **DEAL PARAMETERS (DICHOTOMOUS VARABLES)** |
| **Method of payment** | The method of payment indicates whether the acquirers acquire by purchase of stock or payment of cash. This variable is significant as it is proved in the literature that cash acquirers generate negative returns and stock acquirers generate negative returns. |
| **Prior experience of acquirers** | Whether the acquirer is acquiring a target for the first time or it has previous acquisition experience determines the returns generated around the acquisition announcement. |
| **The status of the target** | The status of the target such as **Private or public** target and **domestic or cross-border** targets also has a great significance in determining the acquirer returns. |
| **Related or Unrelated acquisitions** | Intheacquisitionliteraturerelatedacquisitionshaveseentoearn more positive returns than negativereturns. |
| | **INDEPENDENT VARIABLES** |
| | **FINANCIAL PARAMETERS** |
| | **LEVERAGE** |
| | Increase in Debt |
| | Current liabilities / Debentures (CL/D) |
| | Cash Flow / Interest (CF/I) |
| | Debt/Equity (D/E) |
| | **LIQUIDITY** |
| | Cash Flow / Liquid Assets |
| | Current assets / Current liabilities |
| | Turnover |
| | Sales/ Accounts receivables |

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| | |
|---|---|
| | **Cash flow/Equity (PROFITABILITY)** |
| | **GROWTH** |

## ANALYSIS AND RESULTS

### DETERMINANTS OF PRIOR EXPERIENCE OF ACQUIRERS

**Table 2 : Model Summary**

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|---|---|---|---|
| 1 | 91.027 | .493 | .659 |

Table 2 shows the measure of model fitness for predicting multiple/single using financialparameters.The-2Loglikelihoodratiois91.027showsthatthemodelisafitmodel.

**Table 3 : Classification table**

| | Observed | | Predicted | | |
|---|---|---|---|---|---|
| | | | Multiple/Single | | Percentage Correct |
| | | | .00 | 1.00 | |
| Step 1 | MULTIPLE /SINGLE | .00 | 50 | 10 | 83.3 |
| | | 1.00 | 13 | 57 | 81.4 |
| | Overall Percentage | | | | 82.3 |
| a. The cut value is .500 | | | | | |

Table 3 shows the classification of multiple/single using financial parameters. The resultsindicatethat82.3%oftheacquirershavebeenidentifiedcorrectlyasmultipleandsingle acquirers using financial parameters. While 50 of single acquirers have been identified correctly,10ofthemwereidentifiedasmultipleacquirerswhichmeansthat10acquirerswhich are single acquirers exhibit the characteristics of a multiple acquirer. This may be because the acquirersweren'tsureabouttheirpositionorhaven'thadanyneedforacquisitions.Alsoitcan be seen that while 57 of the multiple acquirers have been identified correctly, 13 of them showed the financial characteristics of single acquirers but have performed multiple acquisitions. The accuracy of predicting multiple and single acquirers is 83.3% and 81.4% respectively.

**Table 4: Variables in the equation**

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| | | B | Sig. |
|---|---|---|---|
| | Constant | -28.424 | .309 |
| | CF/LA | -17.433 | .000* |
| | DEBT/CA | -15.444 | .005* |
| | CF/I | 2.983 | .002* |
| | CA/CL | -.786 | .604 |
| | SALES/AR | -2.462 | .179 |
| | CF/EQUITY | -3.618 | .029* |
| | SALES/GROWTH | -.815 | .289 |
| | FCF | -7.973 | .000* |
| | INCREASE IN DEBT | 20.595 | .045* |
| | DEBT/EQUITY | -.116 | .578 |

Table 4 shows the financial ratios that has an influence on multiple/single decision of acquirers. The ratios that were found to influence multiple/single status of acquirers significantly at $p<0.05$ are CF/LA, Debt/CA, CF/I, CF/Equity and FCF. The liquidity of acquirers represented by CF/LA has a high negative influence on multiple/single with thebeta value of -17.433. As 55% of acquirers are multiple acquirers, it can be implied as acquirer go in for acquisition over and over again, their liquidity begins to decrease. CF/Equity and FCF also exhibits negative influence on multiple/single with beta values of -3.618 and -7.973. This means that multiple acquisitions are not healthy for companies inIndia.

**Thus it can be seen that the results support the hypothesis H4 while H2 is not supported.**

**Determinants of CBA/DOM Decision of Acquirers**

Thisisoneanotherdealparameterthatwasinfluencedgreatlybyfinancialparameters. From the data, it can be seen that 80% of acquirers are domestic acquirers and thus the results can be directly implied to domesticacquirers.

**Table 5: Model Summary**

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|---|---|---|---|
| 1 | 89.828 | .266 | .421 |

Table 5 shows the measure of model fitness for predicting multiple/single using financial parameters. The -2 Log likelihood ratio is 89.828.

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**Table 6: Classification table**

| | Observed | | Predicted | | |
|---|---|---|---|---|---|
| | | | CBA/DOM | | Percentage Correct |
| | | | .00 | 1.00 | |
| Step 1 | CBA/DOM | .00 | 95 | 9 | 91.3 |
| | | 1.00 | 16 | 10 | 38.5 |
| | Overall Percentage | | | | 80.8 |

a. The cut value is .500

Table 6 shows that overall 80.8% of the CBA and domestic acquirers were classified correctly. While 95 of domestic acquirers have been identified correctly, 9 of them were identified as CBA which means that 9 acquirers which are domestic acquirers exhibit the characteristics of a CBA. Also it can be seen that while 10 of the CBA have been identified correctly, 16 of them showed the financial characteristics of domestic acquirers but have performed cross-border acquisitions. The accuracy of predicting domestic and CBA through financial parameters are 91.3% and 38.5% respectively.

**Table 7: Variables in the equation**

| | | B | Sig. |
|---|---|---|---|
| | Constant | -57.357 | .050* |
| | CF/LA | 9.435 | .005* |
| | DEBT/CA | 15.293 | .003* |
| | CF/I | -2.012 | .015* |
| | CA/CL | -2.662 | .141 |
| | SALES/AR | -5.746 | .001* |
| | CF/EQUITY | 2.341 | .102 |
| | SALES/GROWTH | 1.771 | .011* |
| | FCF | 8.455 | .004* |
| | INCREASE IN DEBT | 9.988 | .233 |
| | DEBT/ EQUITY | .472 | .018* |

*significant at 0.05%

Table 7 shows the financial parameters influencing the CBA and domestic decision of the acquirers. The significant financial ratios that have shown to influence CBA/Dom are CF/LA, Debt/CA, CF/I, Sales/AR, Sales growth, FCF and D/E. Since the results are directly impliedtodomesticacquirers,itcanbeseenthatCF/LAwhichrepresentsliquidityisfoundto influencedomesticacquirersinapositivewaywiththebetavalueof9.435.Thissimplymeans

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thatdomesticacquisitionsareliquidityincreasingtoacquiringfirms.Alsoincreaseinleverage ofthefirmsmotivatesthemtogoinfordomesticacquisitionswhichcanbeseenfromDebt/CA andD/Einfluencinginapositivewaywiththebetavaluesof15.293and0.472.Thusthehigher theleverageofthefirm,thegreaterthechanceofthefirmgoinginforanddomesticacquisition.

\The growth of the firm and the FCF of firms are other motivators for domestic acquisitions withbetavaluesof1.771and8.455.Thustheseresultsclearlyshowsthefinancialdeterminants of acquisitions inIndia.

**Determinants of Pvt/Pub decision of acquirers**

Thisisoneanotherdealparameterthatwasinfluencedgreatlybyfinancialparameters. Fromthedata,itcanbeseenthat65%ofthemareprivateacquirerswhile35%ofthefirmsare publicacquirers.

**Table 8: Model Summary**

| **Step** | **-2 Log likelihood** | **Cox & Snell R Square** | **Nagelkerke R Square** |
|---|---|---|---|
| 1 | 144.945 | .237 | .317 |

Table 8 shows the measure of model fitness for predicting multiple/single using financial parameters. The -2 Log likelihood ratio is 144.945. This statistic measures how well or poor the model predicts the deal parameter and the value of 144.945 shows that the model is a fit model. The Cox & Snell R Square indicates the bonding between dependent and independent variables and shows that there is 23.7% bonding between multiple/single and financial parameters. Nagelkerke R Square with the value of 0.317 suggests that the model is fit and has good bonding between independent and dependent variables.

**Table 14: Classification table**

| | **Observed** | | **Predicted** | | |
|---|---|---|---|---|---|
| | | | **PVT/PUB** | | **Percentage Correct** |
| | | | **.00** | **1.00** | |
| Step 1 | PVT/PUB | .00 | 39 | 25 | 60.9 |
| | | 1.00 | 9 | 57 | 86.4 |
| | Overall Percentage | | | | 73.8 |
| a. The cut value is .500 | | | | | |

Table14showsthatoverall73.8%oftheprivateandpublicacquirerswereclassifiedcorrectly. While 39 of public acquirers have been identified correctly, 25 of them were identified as private which means that 25 acquirers which are domestic acquirers exhibit the characteristics

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ofaprivateacquirers.Alsoitcanbeseenthatwhile57oftheprivatehavebeenidentified correctly, 9 of them showed the financial characteristics of public acquirers but have acquired private firms. The accuracy of predicting Pvt/Pub through financial parameters are 60.9% and 86.4% respectively.

**Table 9 : Variables in the equation**

| | | B | Sig. |
|---|---|---|---|
| | Constant | 4.485 | .812 |
| | CF/LA | 3.376 | .062 |
| | DEBT/CA | 8.480 | .006* |
| | CF/I | -.760 | .121 |
| | CA/CL | .651 | .645 |
| | SALES/AR | .885 | .448 |
| | CF/EQUITY | 2.593 | .023* |
| | SALES/GROWTH | .636 | .194 |
| | FCF | 3.215 | .004* |
| | INCREASE IN DEBT | -6.759 | .284 |
| | DEBT/EQUITY | -.048 | .778 |

*Significant at 0.05%

Table 9 shows the influence of financial parameters on the Pvt/Pub decision of acquirers.Asseenthesignificantratiosinfluencingitare:Debt/CA,CF/EquityandFCF.These represents the leverage, profitability and the FCF status of the firms and they have found to influencing the Pvt/Pub in a positive way with the beta value of 8.480, 2.593 and 3.215 respectively. Thus it can be implied that increased leverage, increased profitability and excess cash flow motivates a firm to go in for acquisition of private firms. One contradicting result is that liquidity which influences Pvt/Pub status of acquirers significantly in the literature does not have an effect in Indian context. **Thus hypothesis H3 is supported by thestudy.**

### 4.5.4 Determinants of Related/Unrelated Acquisitions

Thisisoneanotherdealparameterthatwasinfluencedgreatlybyfinancialparameters. Fromthedata,itcanbeseenthat80%ofthemarerelatedacquirerswhile20%ofthefirmsare unrelatedacquirers.

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**Table 10 : Model Summary**

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|---|---|---|---|
| 1 | 40.389[a] | .311 | .628 |

Table 10 shows the measure of model fitness for predicting multiple/single using financialparameters.The-2Loglikelihoodratiois40.389.NagelkerkeRSquarewiththevalue of 0.628 suggests that the model is fit and has good bonding between independent and dependentvariables.

**Table 11: Classification table**

| | Observed | | Predicted | | |
|---|---|---|---|---|---|
| | | | Related/Unrelated | | Percentage Correct |
| | | | .00 | 1.00 | |
| Step 1 | Related/Unrelated | .00 | 9 | 5 | 64.3 |
| | | 1.00 | 3 | 113 | 97.4 |
| | Overall Percentage | | | | 93.8 |
| a. The cut value is .50 | | | | | |

Table11showsthatoverall93.8%oftherelatedandunrelatedacquirerswereclassified correctly. While 9 of unrelated acquirers have been identified correctly, 5 of them were identified as private which means that 5 acquirers which are horizontal acquirers exhibit the characteristics of a conglomerate acquirers. Also it can be seen that while 113 of the related have been identified correctly, 3 of them showed the financial characteristics of unrelated acquirersbuthaveacquiredrelatedfirms.Theaccuracyofpredictingrelated/unrelatedthrough financial parameters are 64.3% and 97.4%respectively

**Table 12: Variables in the equation**

| | | B | Sig. |
|---|---|---|---|
| | Constant | 49.325 | .203 |
| | CF/LA | 14.452 | .024* |
| | DEBT/CA | -7.476 | .514 |
| | CF/I | -2.559 | .079 |
| | CA/CL | -8.790 | .062 |
| | SALES/AR | 8.737 | .016* |
| | CF/EQUITY | 6.778 | .024* |
| | SALES GROWTH | 1.330 | .306 |
| | FCF | -6.153 | .153 |

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Received 16 February 2021; Accepted 08 March 2021.

| | | | |
|---|---|---|---|
| | INCREASE IN DEBT | -13.236 | .270 |
| | DEBT/ EQUITY | .820 | .249 |

*significant at 0.05%

Table 12 shows the influence of financial parameters on the related/unrelated decision ofacquirers.Asseenthesignificantratiosinfluencingitare:CF/LA,CF/EquityandSales/AR. Liquidity of the firm represented by CF/LA serves as an indicator for related acquisitionswith the high beta value of 14.452. This means that any increase in liquidity will have a possibility of the firm acquiring firms in related business line. Turnover and profitability represented by Sales/AR and CF/Equity will influence related acquisitions in a positive way with an impact of 8.737 and 6.778respectively.

**Thus over all it can be seen that hypothesis H4 is supported by the study.**

## DISCUSSIONS AND CONCLUSIONS

Theinfluenceoffinancialparametersdoesnotendwith CAR,butfinancialparameters also play an important role in determining the acquirer decisions (dealcharacteristics).

The liquidity of acquirers represented by CF/LA has a high negative influence on multiple/single.As55%ofacquirersaremultiple acquirers,itcanbeimpliedasacquirergoin foracquisitionoverandoveragain,theirliquiditybeginstodecrease.CF/EquityandFCFalso exhibitsnegativeinfluenceonmultiple/singleandthismeansthatmultipleacquisitionsarenot healthy for companies in India. The study also found that 82.3% of the acquirers have been identified correctly as multiple and single acquirers using financial parameters. While 50 of singleacquirershavebeenidentifiedcorrectly,10ofthemwereidentifiedasmultipleacquirers which means that 10 acquirers which are single acquirers exhibit the characteristics of a multiple acquirer. This may be because the acquirers weren't sure about their position or haven't had any need for acquisitions. **To safeguard themselves from the future losses they have become single acquirers. If equity shareholders are demanded for their retained earnings and distributed to their shareholders, they'll be single acquirers. Seeing the changeinthemarket,thecompanymaynotwanttogofornewissuesorseeingthemarket crisis,theyhaveremainedsingle.Company'sproportionofequityholdersislessthanthe debt or the companies is a defensive one where it feels that raising of debentures itself is sufficient when cash is equal to repaying the shareholders.** Also it can be seen that while 57ofthemultipleacquirershavebeenidentifiedcorrectly,13ofthemshowedthefinancial

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Received 16 February 2021; Accepted 08 March 2021.

characteristicsofsingleacquirersbuthaveperformedmultipleacquisitions.**Therecanbetwo possible reasons for this: (i) the acquirer may have had high debt for which it wanted to acquire a target to take advantage of the target's liquid assets and (ii) the acquirers would'vebeenoverconfidentabouttheirpresumptionsthatthetargetchosenistheright one(hubristheory).Acquirersbecomingmultiplewheretheyshouldbesinglemaybedue to higher expectation on the investment. The projection of IRR for the company would have been on a higher side which they would have predicted to cover up. Market behaviour is not sensitive to acquisition announcement or Cost of capital is greater than rateofreturn.Thebookvalueofitsassetsandcapitalwould'vebeenovercapitalizedand the utilization of its own efficiencies would've been a major cost for their wrong predictions. Financial risk would've been comparatively higher and debt payment would've been equally more for them to become a multipleacquirer.**

It can be seen that CF/LA which represents liquidity is found to influence domestic acquirers in a positive way. This simply means that domestic acquisitions are liquidity increasing to acquiring firms. Also increase in leverage of the firms motivates them to go in for domestic acquisitionswhichcanbeseenfromDebt/CAandD/Einfluencinginapositiveway.Thusthe higher the leverage of the firm, the greater the chance of the firm going in for and domestic acquisition. The growth of the firm and the FCF of firms are other motivators for domestic acquisitions. Thus these results clearly shows the financial determinants of acquisitions in India.While95ofdomesticacquirershavebeenidentifiedcorrectly,9ofthemwereidentified as CBA which means that 9 acquirers which are domestic acquirers exhibit the characteristics of a CBA. **The reason for acquirers, though having the financial characteristics of CBA, not going in for CBA may be because 90% of acquisitions in the sample are domestic acquisitions. As acquisitions are a new concept in Indian economy, the possibilities of acquirers to jump in to acquire targets cross-border are quite low.This may be also because of the following reasons: Change in market regulation which may influence the companytoadopttheirtermsandconditions.Highchanceofbusinessriskwhichinturn will affect the operational capacity of the company will lead to less CF due to which will in turn lead to non-payment of interest and dividend. Lower operational performance will lead to declined sales. The parent company would not have the regulatory power to go for CBA. There also can be chance of market return for earlier acquisition would not havecreatedAR.RiskinCBAwouldbethemajorfactor.Listingitinotherstockmarket would also be a reason to become out of criteria. Mismatch of capital budgetingdecision** also

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Received 16 February 2021; Accepted 08 March 2021.
may be one of the reason for not going for CBA. If the company's operational cash is marginally less and has to depend more on belongings, not go for CBA.

Also it is seen that while 10 of the CBA have been identified correctly, 16 of them showed the financial characteristics of domestic acquirers but have performed cross-border acquisitions. **Anonymous advantage over CBA listed in multiple stock exchange. Percentageofreturnwouldbecomparativelyhigher.Companieswillhighfinancialstatus will be CBA but need not be operationally fit. Targets would've been under-valued but market or operational performance would have been lower. To have more acquisition than the parent company itself, holding a subsidiary abroad would've been more attractive.Morechancesofexpandingandmultiplemanufacturingstrategywouldcreate ahugebenefit.Otherbenefitsapartfrombusinessandfinancialbenefitsarelabour,plant location as per Adam Smith's theory would be thereason.**

The parameters that influence pvt/pub status of the target are Debt/CA, CF/Equity and FCF. These represent the leverage, profitability and the FCF status of the firms and they have found to influencing the pvt/pub in a positive way. Thus it can be implied that increased leverage, increased profitability and excess cash flow motivates a firm to go in for acquisition of private firms. One contradicting result is that liquidity which influences pvt/pub status of acquirers significantly in the literature does not have an effect in Indian context. While 39 of public acquirers have been identified correctly, 25 of them were identified as private which means that 25 acquirers which are domestic acquirers exhibit the characteristics of a private acquirers. This may be because of the following reasons: **Public companies as acquired by the government would have been the same regulatory benefit, huge asset size of public firm is an added advantage, public firms are always undervalued which has a market advantagebutoperationaladvantagetakealongtime,tillatimeof5yearsthecompanies willundergolossbutlaterhaveadvantageousprofits,Consideredriskfreeandassurance of rate of return and the other political market related benefits lead them to have a greater market share. If private company is acquired the disadvantage of having high risk and investment loss is assured.**

Also it is seen that while 57 of the private have been identified correctly, 9 of them showed the financial characteristics of public acquirers but have acquired private firms. This may be because of: **Free flow of cash from the capital market, new technological advancement and benefits, structured turn over can be recovered; payback period can be identified, For every target its percentage of gain can be identified in acquiring the**

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**private companies.**

Liquidity of the firm represented by CF/LA serves as an indicator for related acquisitions. This means that any increase in liquidity will have a possibility of the firm acquiring firms in related business line. Turnover and profitability represented by Sales/AR and CF/Equity will influence related acquisitions in a positive way. While 9 of unrelated acquirershavebeenidentifiedcorrectly,5ofthemwereidentifiedasprivatewhichmeansthat 5 acquirers which are horizontal acquirers exhibit the characteristics of a conglomerate acquirers. Also it can be seen that while 113 of the related have been identified correctly, 3 of them showed the financial characteristics of unrelated acquirers but have acquired related firms. This may be due to the advantages in acquiring related firms which are: **with same operations they will be able to analyse easily the profit of the company, expectations of the shareholders to retain levels and they may also get tax benefits for acquisitions**.

## IMPLICATIONS AND SCOPE FOR FUTURE RESEARCH

Through this study **acquirers can analyse themselves** and their decision on acquiring. Using their pre-acquisition financial characteristics, they can examine if they have taken the right decision to invest in the right target. Also, the general myth is that, pre-acquisition financial characteristics of acquirers are not much useful in analysing acquirer performance in future. Through this study researchers and practioners will know the **importance of the pre-acquisition financial characteristics** of acquirers and its' usefulness in analysing acquirer decisions.

Also various parties involved in the acquisition will get benefited by this study. **Banks** can analysethe acquirerdecisionandcandecideonwhethertoprovidethemwithloanornot.The **agents who provide due diligence** to acquirers can analyse and advice on the acquirer decisionsusingthepre-acquisitionfinancialcharacteristicsofacquirers.**Targets**canseeifthe acquirers are in a position to run their company in a successful way afteracquisitions.

**Not only to practitioners, has this study provided a lot of scope for academicians as well.** Researchers so far has analysed all the aspects of acquirers, but have not given muchattention tothepre-acquisitionfinancialcharacteristicsofacquirers.Throughthisstudy,theimportance ofthepre-acquisitionfinancialcharacteristicsofacquirersisprovedandthusfutureresearchers

can focus more on this and can analyse acquirers' decision before it actually acquires rather than focusing on the consequences after the acquisition is over.

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