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Dubious Value of International Acquisitions by Emerging Economy Firms: The Case of Indian Firms

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Abstract

This article addresses the question whether companies from emerging economies create shareholder value through foreign acquisitions. The popular business press usually views these foreign acquisitions very positively. The stock markets have often reacted negatively to the acquisitions. The management always claims that the acquisition is in the long term strategic interests of the firm. This article attempts to shed light on these conflicting positions: short term versus long term, and financial versus strategic logic. Using a mix of stock market reaction for a small sample and three in-depth case studies, I conclude that large foreign acquisitions from India have not created shareholder value. The causes of this under-performance are: too little integration, agency problems, and easy capital. Finally, I use a case study to illustrate a successful approach to foreign acquisitions: significant synergies, reasonable price, and deep integration.

Keywords: International acquisitions; emerging economy; shareholder value.

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Companies originating from emerging economies have been increasingly pursuing international acquisitions. This is to be expected and has been predicted for a long time. Companies need certain ownership-specific advantages to compete successfully outside their home markets. Such advantages are likely to increase as emerging economies reach higher levels of development. This internationalization trend by emerging economy firms has been driven by various factors such as, the liberalization of their domestic economies, globalization of their industries, intensity of competition, managerial capabilities, and access to capital markets. The share of emerging economies in global cross-border acquisitions rose from 4% in 1987 to 13% in 2005 to 20% in 2008.[1] Furthermore, in the last decade, the scale of these foreign acquisitions has increased significantly. Tata Steel from India acquired Corus Steel for $13 billion; Hindalco Industries purchased Novelis for $5.7 billion. Chinese oil company CNPC acquired PetroKazakhastan for $4.2 billion; Lenovo Group bought IBM's personal computer business for $1.8 billion. Mexican building materials company CEMEX acquired the British RMC Group for $5.8 billion, and the Australian Rinker Group for $14.2 billion. The Brazilin mining company Vale acquired Inco for $18.9 billion.

These mega-deals involving acquisitions by emerging economy firms have attracted much attention from the business press. In the developed countries, some welcome this as a positive trend: a new source of capital and knowledge; this is globalization at its best and benefits everybody. Others regard these acquisitions as a threatening trend; the world becoming 'flat' is leading to new competition from unexpected places. Some have even called for protectionist intervention. Not surprisingly, in the emerging economies, the business press has been unequivocally positive, even euphoric about these foreign acquisitions. There is much talk about emerging giants and new powerhouses. Some see this as the revenge of the former colonies against the imperialist powers. The Indian newspaper *The Economic Times* exclaimed "Corus, the erstwhile British Steel and one of the icons of Her Majesty's Empire will now fly the [Indian] Tricolour." But, what often is under-emphasized or assumed away in this discussion by the popular press is to what extent the acquiring firms create value for their shareholders. This issue might be less critical if the acquisition is carried out by a state owned enterprise or a sovereign wealth fund pursuing national interest. But many of the acquiring firms are private, publicly listed firms that have a fiduciary responsibility to their shareholders. This paper addresses the question whether such publicly listed companies from emerging economies create shareholder value through foreign acquisitions, and in particular, through large acquisitions.

The popular business press usually views foreign acquisitions by emerging economy firms very positively. The stock markets have often reacted negatively to the acquisitions. The management always claims that the acquisition is in the long term strategic interests of the firm. This article attempts to shed light on these conflicting positions: short term versus long term, and financial versus strategic logic. I describe below a common story to illustrate the tensions.

On 31 January 2007, Tata Steel increased its offer price to acquire Corus Steel to 608p a share, topping the 603p offer from rival bidder, the Brazilian company CSN, thus clinching the deal. The Managing Director of Tata Steel, B. Muthuraman, cast his firm's victory in broad light as a milestone for Indian business and the country's economy. This upbeat mood was echoed by India's finance minister, Palaniappan Chidambaram, who said the successful bid reflected the new-found confidence of Indian industry.[2] The shareholders of Tata Steel were not nearly so enthused, and penalized the stock by 11% the next day. Ratan Tata, the chairman of the Tata group, responded "Quite frankly I do feel [the stock market] is taking a short-term and harsh view. In the future somebody will look back and say we did the right thing." Analysts argued that Tata was overpaying for the acquisition, citing, for example, that the price was 9 times Corus's (EBITDA) earnings that dwarfed the 6 times that Mittal Steel recently paid to acquire Arcelor. Mr. Muthuraman accepted that the deal "may look expensive" but was in fact in the strategic interests of both companies allowing Tata Steel access to Corus's markets and Corus the access to cheap raw materials and low costs of steel making.

I first briefly review the previous research on acquisitions. My research sample consists of all large foreign acquisitions by Indian companies during the years 2000-09. I consider the stock market performance of these 17 acquisitions during a one-year time window. I supplement this small sample study by examining in-depth the three largest acquisitions using a case study approach, and conclude that the foreign acquisitions from India have not created shareholder value. The causes of this under-performance are: too little integration, agency problems, and easy capital. Finally, I use a case study to illustrate a successful approach to foreign acquisitions: significant synergies, reasonable price, and deep integration.

Previous research

There has been a tremendous amount of research on acquisitions, especially in the fields of finance, strategy and international business. I review very briefly the previous research at three levels: acquisitions in general, cross-border acquisitions, and cross-border acquisitions from emerging economies.

Acquisitions create value due to synergy between the acquiring and target firms. Synergy is derived from operational gains, market power, or some form of financial gain. Assuming efficient capital markets and limited potential for increasing market power, the emphasis has been on operational gains due to economies of scale or scope as the source of synergy. In the resource based view of the firm, company growth is a quest for productive opportunities to profitably use firm-specific assets, such as technological, marketing and distribution capabilities. Growth is the best way to use these specialized resources because market frictions prevent the firm from trading its stock of valuable resources.[3] This synergy gain is then divided between the acquiring and target firms. The more efficient is the market for corporate control, the larger is the share of gains captured by the target firm. Much empirical research confirms that acquisitions do create value.[4] However, acquiring firms on the average do not gain value; somewhere between half to three-fourths of acquiring firms actually lose shareholder value.[5] Given this well accepted result, other explanations are needed for why so many acquisitions take place. There might be an agency problem: managers do acquisitions to maximize their own utility at the expense of the shareholders. Another possibility is that hubristic managers overestimate their competence with respect to identifying and exploiting synergies.[6] This would explain why so many acquiring firms do not create shareholder value.

There is also much literature that examines cross-border acquisitions. The argument for synergies is stronger than in the case of domestic acquisitions because of greater market frictions. Firms extract above-normal profits from foreign direct investment by internalizing host-country market imperfections when their firm-specific resources cannot be easily traded across country boundaries. This view is embedded in the exploitation perspective, whereby firms make use of their specialized resources by expanding into foreign markets. But there are also increased challenges with post-acquisition integration due to cultural and institutional barriers. The empirical evidence is inconclusive about acquiring firms creating shareholder value through foreign acquisitions.[7] A survey-based study conducted by the consulting firm KPMG concluded that 83% of 700 cross-border deals in the period 1996-1998 had not delivered shareholder value. But, interestingly, in the same survey, 82% of the respondents believed that the deal they had been involved in had been a success.[8]

In contrast to the exploitation perspective described above, international acquisitions by emerging economy firms might be motivated by the potential to acquire specialized strategic resources. There are inherent problems in transacting intangible resources and capabilities through market mechanisms. Foreign acquisitions might be the best way for emerging economy firms to gain these strategic capabilities quickly. This 'reverse' flow of specialized resources and capabilities from the target to the emerging economy acquirer is often mentioned in both the academic literature and the popular press as the major benefit of such acquisitions. The driving logic for these acquisitions is to exploit and/or acquire specialized firm-specific resources that result in competitive advantage and above normal profitability.

There is much less empirical research on international acquisitions by emerging economy firms. Once again, the empirical evidence is inconclusive. Aybar and Ficci analyze 433 foreign acquisitions made by firms from various emerging economies (mostly from Latin America and Asia) during the period 1991-2004. Using event study methodology, they find that on average the cross-border acquiring firms do not create value; more than half the firms destroyed shareholder value.[9] Gubbi *et al* analyze 425 cross-border acquisitions by Indian firms during 2000-2007. Again using the standard event study methodology, they find that these acquiring firms do create shareholder value; the ratio of value creating to value destroying acquisitions is 60:40.[10] In spite of the inconclusive evidence in the academic literature, the popular business press is very positive on foreign acquisitions by emerging economy firms. A good example of this genre is the recent book *India's Global Powerhouses: How They Are Taking On The World*, which concludes that Indian companies "have become self-assured and savvy investors, financing large deals and paying global prices."[11] The empirical evidence presented in this article does not support such positive assertions.

Research Design

Event study methodology focuses on the stock market reaction to a particular event in a short time window, from a few (typically 1 to 10) days before the announcement of the event to a few days after the announcement. The firm's stock market change is adjusted for changes in the overall stock market and the firm's systematic risk using a common linear market model. This methodology has become the standard way to measure value creation in the acquisition studies, at least partly because it has desirable statistical properties. This methodology assumes that the stock market response to the acquisition announcement is instantaneous, complete and unbiased, based on the semi-strong form of the efficient market hypothesis. There are several problems with this methodology in the context of large foreign acquisitions by emerging economy firms. First, it is debatable how efficient the stock markets are in emerging economies. Second, and more importantly, the focal events -- cross-border acquisitions by emerging economy firms -- are complex, infrequent, and novel strategic initiatives. It is likely that the stock market collectively does not fully understand these events and is prone to heuristic biases. Third, the stock market reacts immediately to an acquisition announcement based on its past experience with similar deals and its incomplete understanding of the current deal; the event study methodology measures only this immediate reaction. Over time more information about the prospective deal, and eventually information about post-acquisition performance is revealed. The stock market then reaches a new equilibrium that reflects the value created (or destroyed) by the acquisition. This period of resolution of uncertainty, from the announcement to the new equilibrium, can range from a few months to a few years.[12] It is thus useful to supplement event study methodology with other research using long-term performance measures.

The problem with long-term performance measures is that other confounding events occur and it is difficult to isolate the impact of the focal acquisition. I will resolve this dilemma by measuring stock market performance from the day before the announcement to one year after the announcement. Since I study large foreign acquisitions, it is unlikely that the acquiring firm has faced another similarly dramatic event in one year. For all firms in my sample the acquisition is completed within this one-year time window, and the stock market has seen some indications of post-acquisition performance.

The performance measure I will use is simply the 'relative stock market returns' defined as the shareholder returns of the acquiring firm minus the returns to a broad index of the stock market, during the time window one day before the announcement of the acquisition to one year after the announcement. For stocks with firm systematic risk (measured by 'beta') close to one, this is an acceptable way to measure performance. This simple measure has the advantage of minimal manipulation of the data, and requires no assumptions about stock market behavior, and is probably close to how many investors assess the firm's performance. As a check, I also calculate 'buy and hold abnormal returns' for the same time window using the capital asset pricing model and find no difference in results.

My sample consists of all acquisitions above $500 million completed by Indian firms during the years 2000 to 2009. After discarding firms for which stock market data were not available, I end up with 21 acquisitions, 17 foreign and 4 domestic, listed in Table 1. It is interesting to note that all acquisitions, except one, were initiated during the years 2006-2008, the boom years preceding the recent financial crisis.

Insert Table 1 about here

A disadvantage of my approach to measuring performance is that it is not well suited for statistical tests. However this is not a major issue for my research since I have 21 observations and will report only descriptive tabulations. In any case, my 'sample' is the entire population of large acquisitions by Indian companies. All the previous academic research uses large samples and statistical tests. While this has obvious advantages, it does not provide an in-depth analysis at the firm level. I will supplement my small sample study with clinical case study analysis of the three largest acquisitions and attempt to explain what factors led to value creation or destruction in these three cases. For these three case studies, I can also examine other significant events faced by the firms that might have a confounding effect on shareholder returns.

Empirical Results

Table 2 reports the stock market reaction to the 21 acquisitions in my sample using the two measures: the simple relative returns and the academically more rigorous buy and hold abnormal returns. I used the Sensex, the benchmark index of the Bombay Stock

Exchange, to calculate these measures. It is clear that the two measures are very highly correlated; the correlation coefficient is 0.99. This provides empirical support for using the simpler measure of relative returns.

Insert Table 2 about here

I categorized the stock market performance of the acquiring firms as follows: strongly positive if the returns exceed 10% using both measures, and slightly positive if the returns lie between zero and 10% on both measures, and similarly for negative returns. I classify two acquisitions as 'neutral' for which the returns were between -10% and +10%, and the signs were different for the two measures. The 10% cutoff is reasonable, even if somewhat arbitrary, because the Indian stock market was very volatile in this time frame; the one year Sensex returns range from -49.1% to +65.7% in my sample. The stock market performance for the 21 acquisitions in the sample is summarized in Table 3. The number of foreign acquisitions exhibiting positive and negative performance is about equal. These results are inconclusive, and consistent with previous academic research. There is no evidence to support the view that large foreign acquisitions by Indian firms have created shareholder value.

Insert Table 3 about here

While I focus on the one-year time window, Table 4 provides the comparison of the short-term (day before the announcement to 5 days after the announcement) stock market reaction and the long-term reaction to the acquisitions, using the relative returns measure. It is interesting to note that the correlation coefficient between the returns for the two windows is only 0.21. This provides support for supplementing previous research using the event study methodology with other research (such as this article) using long-term performance measures.

Insert Table 4 about here

Financing acquisitions

"Unlike most international M&A transactions that typically feature stock swaps in the financing arithmetic, Indian acquirers have for the most part paid cash for their targets, helped by a combination of internal resources and borrowings."[13] This is even truer for the large foreign acquisitions in my sample. All the 17 foreign acquisitions in the sample were paid for with cash; of the 4 domestic acquisitions, only two were paid with cash. The cash acquisitions involved an increase in debt leverage, and thus increased the risk involved in the acquisitions. Easy access to inexpensive debt capital during the boom years 2006-2008 might also have contributed to preference for cash acquisitions. Even though this could not have been anticipated at the time of the acquisitions, the increased leverage often turned out to be a problem during the recent financial crisis and credit squeeze. For example, Tata Motors had problems in 2009 to refinance the bridge loans it had incurred to acquire Jaguar Land Rover.

As a general proposition, target firms prefer stock swaps and receive equity when they are confident that the assets that will be acquired will create value for the buying firm. It is not a positive signal that all the Indian foreign acquisitions were done for cash. One reason for the cash transactions could be that many Indian firms are owned or controlled by promoter shareholders, who also comprise the management. Foreign sellers are often hesitant to invest through stock swaps in firms they perceive may not always be run 'professionally,' according to some private fund insiders.[14]

Another explanation for the cash transactions could be that the Indian promoters are wary of stock swaps because they might not wish to dilute their equity share in the company. In general acquiring firms prefer cash transactions if they believe their stocks are undervalued. With the benefit of hindsight, it is difficult to argue that the stocks of the Indian acquiring firms were systematically undervalued during the two and half years leading up to the financial crisis. It is, however, true that the Indian stock market has recovered dramatically since March 2009.

It is also notable that all the acquisitions in my sample were friendly deals. This by itself does not imply that the Indian acquirers overpaid for the acquisitions. It is, however, true that a generous price will tend to make the deal friendlier. Another reason for friendly deals is that the Indian acquirers have a strong preference to retain the current management of the target firms.[15]

Case Studies

I next examine the three largest foreign acquisitions in greater depth to understand what factors led to value creation or destruction, and try to isolate the influence of confounding factors on stock market performance. I exclude the ONGC-Imperial Energy acquisition because ONGC is a government-controlled company, and its emphasis is on control of natural resources rather than on specialized firm-specific resources. Whereas the primary focus of most acquisitions and of this article is on the specialized capabilities. The three acquisitions I study in depth are: Tata Steel-Corus, Hindalco-Novelis, and Tata Motors-Jaguar and Land Rover. These three acquisitions have garnered much public attention; it is not coincidental that Kumar *et al* mention these three acquisitions in the introductory chapter of their book on India's emerging powerhouses.[16]

Tata Steel and Corus

Tata Steel belongs to the Tata group, which is the largest business group in India with presence in a wide variety of industries ranging from information technology to chemicals to hotels. After the initial announcement in October 2006, Tata Steel and the Brazilian firm CSN engaged in a bidding war to acquire Corus Steel, an Anglo-Dutch company previously knows as British Steel. The stock market did not move much in reaction to the initial announcement. On 31 January 2007 Tata Steel increased the offer price and clinched the acquisition. The stock price of Tata Steel immediately plunged by 11%. The top management of Tata Steel responded by saying that the stock market reaction was short sighted, and that the acquisition would create shareholder value in the long term. The stock price, which was at Rs. 459 the day before the increased offer, quickly recovered to Rs. 471 on 16 April 2007. In apparent vindication of top management's position, the stock price zoomed up to Rs. 935 on 2 January 2008, far exceeding the gains in the Sensex index.

Managing Director Muthuraman said that Corus brought to Tata Steel capacity of 19 million tons per year at a cost of about $710 per ton, which is little more than half the cost of greenfield capacity of $1200 to $1300 per ton. It gave Tata Steel access to the developed and mature markets in Europe where product quality and service is important. Corus also brought high R&D capability. He also forecast up to $350 million in savings after about three years from synergies in procuring materials, in marketing and in shared services. Steel prices would rise driven by demand from explosive growth in the biggest markets in the developing world: India and China. Finally, he also believed there was a tremendous amount of cultural fit between Tata Steel and Corus. For the deal to work, Tata had to improve the efficiency of Corus, whose profit margins at 7% were a quarter of those of Tata Steel. Ratan Tata stated "I think our plan would be to try to make the UK operations more profitable."[17] Maybe the strategic logic of the acquisition was right after all, and it had taken the stock market about 15 months to fully appreciate the complexities and subtleties involved in the acquisition. Or, more likely the strategic logic of the acquisition was flawed, and some other confounding event explains the rise in the stock price.

Tata Steel's cost of production at around $450/ton is among the lowest in the world. Even in 2009 when the global average cost had reached about $700-750/ton, Tata Steel managed to control its costs to about $500/ton. But this advantage is not transferable to Corus. Captive raw materials is the primary source of Tata Steel’s competitive advantage. Tata Steel meets 100% of its iron ore requirements and 50% of its coking coal requirement through backward integration. Whereas Corus is completely exposed to raw material price volatility due to lack of any significant backward integration. One important synergy stated at the time of the acquisition was the leveraging of low cost slabs from India that could be used by Corus to produce various finished products. But in 2006 Tata Steel did not have spare slab capacity. Tata Steel also benefits from low labor cost and tight capacity in its primary market of India. Corus, on the other hand, has high labor costs, strong unions and excess capacity.

Tata Steel paid about $710 per ton of capacity, which is low compared to greenfield cost of $1200-1300 per ton. This is a false comparison since Corus was one of the highest cost producers in Europe and there is excess steel capacity in the European markets. When Tata Steel acquired two smaller Asian steel companies, NatSteel and Millennium Steel in 204 and 2005, it paid a price of $374 and $333 per ton, respectively. In 2010, Anand Rathi Financial Services values Corus capacity at around US$360-400/ton, which implies that Corus is worth little more than half what Tata Steel paid for it three years ago.[18] Anand Rathi projects that in 2011, Corus would comprise 65% of Tata Steel's consolidated revenues but only about 23% of EBITDA earnings. Even based on expectations for 2012, Anand Rathi does not expect Corus’ return on capital employed to exceed 3%, which is clearly low even compared to global peers.

Tata Steel paid 9 times EBITDA to acquire Corus. In comparison, Mittal Steel acquired Arcelor in 2006 for an EBITDA multiple of 6. This was in spite of the fact that Corus was less profitable and less efficient compared to Arcelor. Also, the entire amount was paid in cash by Tata Steel as opposed to a combination of cash and share swap in case of the Arcelor deal. Tata Steel probably overpaid for Corus.

In 2009 Corus began decommissioning its Teesside Cast Products plant in UK, thus confirming that the Corus capacity was not that valuable. Angry unions threatened strike action against Tata Steel-Corus because this capacity reduction would lead to laying off 1,600 workers, with a possible 8,000 more job losses in the local supply chain. A company statement said the Teesside plant was a major drag on profitability, denting it with $177 million losses during the September 2009 quarter, due to restructuring costs.

It can be argued that the acquisition involved minimal synergies and that Tata Steel overpaid for Corus. The rise in the stock price of Tata Steel is driven more by the steel cycle rather than by the acquisition. Steel prices (represented by FOB price of hot rolled steel) in the international market increased from an average of $564/ton in 2007 to $714/ton in 2008. However, as global steel demand cracked in the second half of 2008, steel prices in the international market started declining significantly. Prices declined from the highs in 2008 to $380 in June 2009. Steel prices have recovered and in 2010 are hovering at $575/ton.[19] In parallel to the steel cycle, the stock price of Tata Steel moved from Rs. 410 on 31 January 2007 (the day the acquisition was clinched), to a peak of Rs. 922 on 21 May 2008, to a trough of Rs. 151 on 28 November 2008, to its recent price of

Rs. 629 on 22 March 2010. The stock price of Tata Steel has been extremely volatile driven by the steel cycle and the economic cycle. The Corus acquisition is equivalent to the shareholders of Tata Steel placing a highly leveraged (of the $13 billon acquisition price, $9 billion came from increased debt) bet on steel prices. If that is what the shareholders wanted, they could easily have done it on their own in the stock and futures markets, without an expensive acquisition.

Hindalco and Novelis

Hindalco is the flagship company belonging to the Birla group, one of the largest and most diversified family business houses in India. Hindalco, an industry leader in aluminum and copper, is one of the biggest producers of primary aluminum in Asia. In 2007 Hindalco acquired Novelis, a world leader in aluminum rolling and can recycling. After the acquisition, Hindalco as an integrated producer ranks among the global top five aluminum companies. Hindalco paid a price of $44.93 per share for acquiring Novelis, which represented a premium of 16.6% over the price before the announcement date of 11 February 2007. However, this was a premium of 49.1% to the closing price on 25 January, the day before speculation of possible Hindalco bid surfaced.[20] On the day of the announcement, Hindalco shares fell 13.7%; by the end of the next day, the Hindalco shared had underperformed the Sensex by nearly 15% in two days. Kumar Mangalam Birla, Hindalco's Chairman, asked his shareholders to remain "patient" and wrote in the annual report "However, if you look at the bigger picture, this is one of the most striking acquisitions and over the long-term will undeniably create enormous shareholder value."

One year after the announcement, the stock of Hindalco had underperformed the Sensex by 26%.

Hindalco forward integrated from smelting into rolling products by acquiring Novelis. Debu Bhattacharya, Hindalco's managing director, explained the strategy as follows: profitability in the upstream business is higher but more volatile because prices are set on the London Metals Exchange (LME); the profitability of the downstream business is lower but also less volatile. Hindalco acquired Novelis to "optimally balance" between upstream and downstream operations as a natural hedge against volatility in the commodity prices of aluminum on the LME. This is weak strategic logic, and the aluminum industry structure is changing in exactly the opposite direction towards de-integration.

The aluminum industry can be divided into two value chain stages. The upstream segment includes bauxite mining, alumina refining, and primary aluminum production. The downstream segment produces finished aluminum products and includes rolling mills, extrusion and casting. This is a natural 'breaking point' in the industry since aluminum ingot is a commodity and transactions between the upstream and downstream segments can easily be done through markets. There is thus little reason to vertically integrate across these two stages in the aluminum industry.[21] The fully integrated aluminum company has become increasingly less common.[22]

According to Richard Evans, executive vice-president of Alcan, the aluminum industry has correctly been de-integrating between the upstream producers of primary aluminum and downstream producers of finished products, "each with its own business imperatives and needs... One of the best recent examples of this is of course Alcan's own spinoff of the new rolled product company Novelis."[23] This trend has been driven by two changes in the industry: 1) in late 1970s LME began trading contracts for aluminum that rendered transparent the underlying price, and 2) in mid 1990s downstream producers started charging their customers for conversion only and passing through the price of aluminum. Because of these change the integrated business model was "no longer the highest value alternative," according to Alcan top management.[24] Brian Sturgell, the first CEO of Novelis after the spin-off from Alcan, said that "from that point on, it was a question of when and how Alcan would optimize these upstream and downstream models."[25] In May 2004 Alcan decided to spin off its rolled products business as Novelis, so that the upstream and downstream businesses would be free to concentrate on their core competencies. Rio Tinto, a diversified mining company, forward integrated by acquiring Alcan in November 2007, and has been increasingly divesting the downstream businesses such as packaging products.

Even though most downstream producers passed on the aluminum price volatility to their customers by charging separately for conversion, Novelis signed fixed price contracts with four major customers in the hope of increasing its profit margins. Unfortunately for Novelis, aluminum prices shot up a few months after the contracts. In the first nine months of 2006, Novelis reported a loss of $170 million largely because of these fixed-price contracts that run up to 2011. Hindalco had to carry these contracts after the Novelis acquisition. In the third quarter of FY2008-09 Novelis reported $472 million in unrealized losses on derivatives to hedge exposure to commodities and foreign currencies. These derivatives are used to hedge exposure to aluminum, primarily related to fixed-price contracts.

Hindalco financed the Novelis acquisition with debt, which caused its debt service coverage ratio to drop from 15 times in 2006-07 to only 3 times in 2007-08, thus significantly increasing its risk profile. The Novelis profitability has not lived up to the expectations of Hindalco management. Novelis reported a net loss of $1.8 billion in the third quarter of FY2008-09, including charges of $1.5 billion for asset impairment. Hindalco had the dubious distinction of being the first Indian company to take a charge for goodwill impairment. More recently, Novelis may have turned the corner towards profitability; it reported a net income of $68 million for the third quarter of FY2009-10

Tata Motors and Jaguar/Land Rover

Tata Motors is the largest manufacturer of commercial and passenger vehicles in India. In 2008 Tata Motors acquired from Ford Motor Company the two luxury car brands Jaguar and Land Rover (JLR). The stock market's immediate reaction to the JLR acquisition was negative. In the few days following the announcement of the JLR acquisition, the stock price of Tata Motors underperformed the Sensex index by about 5%. Balaji Jayaraman of Morgan Stanley said, buying Jaguar and Land Rover was “value-destructive given the lack of synergies and the high-cost operations involved”.

However, Tata Motors' officials expressed confidence in the deal's long-term potential. Managing Director Ravi Kant said the company was "pretty confident that Jaguar and Land Rover will add positively to our consolidated balance sheet." "People are free to make their own opinions, but I think time will prove who is right," Kant said.[26] Instead, the stock performance of Tata Motors worsened over the next year, and its shares underperformed the Sensex index by 36%. It is, of course, true that this period coincided with the recent economic turbulence in the world, and a significant downturn in the global automotive market.

Ford purchased Jaguar and Land Rover for $5 billon and sold them to Tata Motors for about half that price after several years of operating losses. It is difficult to see how Tata Motors would have greater synergies than Ford with JLR. There are no significant synergies between Tata Motors and JLR. The two companies operate in different geographic markets, selling cars with different technology to very disparate customer segments. Around the same time, Tata Motors was launching its much-publicized car the Tata Nano, the world's cheapest car. Kant issued a clear directive: keep these vehicle lines separate and distinct. "Each is going to chart its own future and own course," he says. "The conflict would come if we were to try to put them together."[27] Tata has experience taking over global brands, and its strategy has been to let each business run its own entity, with modest input from the home office. This is consistent with the view that there are minimal synergies between the two companies.

Tata Motors financed the acquisition with debt significantly increasing its risk profile. The company's ratio of EBITDA earnings to interest paid, an inverse measure of the firm's debt risk, used to be in the range 9 to 11 during the years 2005-2007; after the acquisition, the coverage ratio dropped to 5.9 in 2008. By comparison, the coverage ratio for some successful auto companies in 2008 was: 86 for Toyota, 45 for Nissan, and 31 for Audi. As mentioned earlier, Tata Motors had problems in refinancing he bridge loan in 2009.

While discussing the disappointing performance of Corus and JLR, Ratan Tata conceded in an interview with *The Sunday Times* in 2009 that, with hindsight, he might have gone too far too fast, but that nobody saw the crash coming. “If one had known there was going to be a meltdown then yes [Tata went too far] but nobody knew. Both the acquisitions were made, I would say, at an inopportune time in the sense that they were near the top of the market in terms of price.”[28] Even if we accept the view that the timing of the JLR acquisition was unfortunate, there is still no positive rationale for the acquisition. Lacking synergies, Tata Motors was behaving as a conglomerate in acquiring JLR. There is much evidence that such conglomerate diversification does not create shareholder value; in fact, conglomerates on the average trade at a discount to their break-up value. This situation is made worse if Tata Motors overpaid for the JLR acquisition, even if inadvertently. ICICI Securities values JLR at only about $850 million in 2010, in contrast to the acquisition price of $2.3 billion.[29]

Analysis

Based on the empirical evidence presented above, both stock market performance and the case studies, I come to the conclusion that large foreign acquisitions by Indian firms have not created shareholder value for the acquiring firms, and have probably destroyed shareholder value. *The Economist* comes to a similar conclusion that "several of corporate India's acquisitions now seem ill-advised."[30] The causes of this negative outcome are too little integration to achieve synergies, agency problems, and inadequate discipline due to easy capital.

Integration Light

A strong economic or strategic rationale for synergies is the starting point for any successful acquisition. Virtually no acquiring company would dispute this statement. But, many of the unsuccessful acquisitions involve weak logic dressed up with vacuous statements, such as 'global footprint,' 'scale,' and 'optimal balance.' The Tata Motors-JLR acquisition does not even try to make a strong case based on synergies. Hindalco attempts to justify the Novelis acquisition to achieve some vague balance to reduce risk. But, there is no need for an acquisition to achieve an objective that the shareholders can easily achieve on their own, such as diversify to reduce non-systematic risk. A succinct but powerful way to state the logic of synergy is that an acquisition can create value when the company can exploit a (usually intangible) firm-specific resource that cannot be easily traded in a marketplace.

The Indian companies studied here approach integrating the acquisitions with a very light touch; Kaushik Chatterjee, the CFO of Tata Steel, calls this the Oriental approach as opposed to the Western approach. He described the current Tata Steel-Corus conglomerate as two separate entities bridged together by the support functions like finance and HR.[31] Citing examples from the Tata group, Kale *et al* urge companies "don't integrate your acquisitions, partner with them."[32] Using the example of Hindalco-Novelis, Kumar argues similarly that Indian acquirers do not try to consolidate acquisitions.[33] I think that such a 'light' approach to integration does not, and will not lead to value creation.

Foreign acquisitions by emerging economy firms often seek firm-specific intangible capabilities in areas such as technology, innovation, marketing and distribution. These capabilities cannot just be bolted on to an existing organization. Exploiting a firm-specific resource through an acquisition involves applying or transferring or replicating the resource from one firm to another. This must involve integrating the new resources into the existing organization, which in turn must involve significant organizational integration. Specialized capabilities are woven into the fabric of the organization -- that is what makes them 'firm-specific'. If that were not the case, then there would be a reasonably efficient market for that resource, and no need for the acquisition in the first place.

But that does not imply going to the other extreme. Chatterjee equates the Western approach to "conquering" the acquisition; such a heavy-handed approach is likely to fail, of course. But this is a false 'straw man' argument. Kumar too falls into the same trap when he states that in the "traditional approach" to acquisitions "the buyer has clear short-term aims, but may not have thought through long-term goals." The challenge is to find the appropriate degree of assimilation that preserves the strengths of the two companies but still achieves the synergies available trough the acquisition. Too little integration will lead to no synergies; too much integration might destroy the specialized capabilities of the companies. The devil is in the details, as usual; put differently, good execution is critical.

The three firms studied here do not achieve this balance, and their approach to integration is too light to achieve synergies. Sharing finance and HR, as Chatterjee describes the Tata Steel-Corus company, is surely too little. This is why shared corporate services is not enough to justify conglomerate diversification. Tata Steel and Corus are in the same business, and there is much greater potential for achieving cost reduction through economies of scale -- but that would require significant organizational integration. That has been the approach clearly followed successfully by Mittal Steel over decades of international acquisitions in the steel industry.[34]

Kumar points out that "Hindalco believed that Novelis's steady earnings would help offset the fluctuations in its profits from year to year." It is true that achieving this benefit would not require any integration. But, it is also not value creating in the first place. Shareholders can easily achieve such reduction in volatility by diversifying their portfolio, and Hindalco did not need to do the acquisition for this reason.

Kumar states that Hindalco was happy to leave Novelis's senior managers in place; for six months Hindalco supplemented them with only two of its own managers. This sounds more like abdication of managerial responsibilities rather than appropriate integration given that Novelis had significant managerial problems at that time. The CEO Brian Sturgell had been fired in August 2006, after which the board appointed an interim CEO and then an acting CEO. It had yet to appoint a regular CEO. Novelis had severe issues with financial reporting, and had recently replaced both the CFO and the controller. Its inability to file quarterly results on time had led to a potential violation of debt covenants. Contrary to the industry norm, Novelis had entered into fixed-price contracts taking on unnecessary risk that subsequently turned out badly when aluminum prices went up. Novelis has not been a value creating acquisition. Stronger managerial intervention earlier might have helped improve the situation.

Agency Problems

The traditional view of the agency problem is that the self-interests of the managers (the agents) diverge from those of the shareholders (the principals). One solution is to align their interests by compensating the managers with stock in the company; thus the managers will have 'skin in the game'. This solution does not work in the context of Indian firms. Many Indian firms are managed and controlled by 'promoter shareholders'. These promoter-managers already have much financial skin in the game. The problem is that these promoter-managers are very rich, far richer than the other shareholders, and their financial perspective might be very different. The promoter-managers might be more motivated by non-financial factors, such as fame and public adulation, serving a national goal, leaving behind a legacy, and the pride of managing a large multinational company.

Foreign acquisitions by Indian firms have prompted much nationalistic chest-thumping about 'rising India' by the media, and the corporate and political elite. Indian newspapers discussed the Tata-Corus deal under shrill headlines, such as "India poised for global supremacy", "The Empire strikes back," and "Global Indian takeover." Confederation of Indian Industry president R. Seshasayee said "Tata Steel's successful bid for Corus Group Plc. is a statement on Indian Industry's coming of age and takes our Mergers and Acquisition levels to a different paradigm. This is a testimony of the confidence and competence of Indian Industry." Finance Minister Chidambaram said "our industry is capable of raising resources to acquire enterprises abroad and manage them efficiently."

All this popular attention might lead top managers to believe they are primarily responsible for achieving some nationalistic goals, even misconceived goals. In surprisingly candid comments, Ratan Tata revealed about the Corus acquisition: "We all felt that to lose would go beyond the group and it would be an issue of great disappointment in the country. So, on the one hand you want to do the right thing by your shareholders and on the other hand you did not want to lose."[35] Managers, even promoter-shareholder-managers, primarily have a fiduciary responsibility to their shareholders. The Indian media expressed much enthusiasm for an Indian takeover of two U.K. brands, Jaguar and Land Rover, whose roots date back to the days of British colonial rule. But, as Thiyaga Rajan, a fund manager who sold his shares in Tata Motors after the acquisition announcement, put it "patriotic ebullience doesn't rub off on the shares."

The true measure of firm or managerial performance is the economic value created. However, much of the popular press discussion confuses firm size to be an automatic measure of performance. Completing an acquisition is considered a sign of success. Winning a bidding war for a target company is seen as 'winning'. But, it is easy to increase firm size while losing money. Similarly, it is easy to 'win' a bidding war by paying too much for a target company -- the winners curse. The nationalistic euphoria that focuses on firm size and acquisitions can lead to corporate overreach. Kumar *et al* suggest that "in India's closely knit business community, it is almost becoming a kind of fashion statement for companies to make foreign acquisitions."[36]

This is an ironic twist on the traditional agency problem. Very rich managers might have a different financial perspective from less affluent shareholders, even when the managers have much skin in the game. In fact, too much skin (that is, a large shareholding) might make them very rich and lead to this paradoxical result. This phenomenon is not unique to India or emerging countries. For example, in May 2008, Jerry Yang, the co-founder and then CEO of Yahoo, rejected a takeover offer from Microsoft valued at $33 per share, a significant premium over the current market price. There was much criticism in the press of Mr. Yang accusing him of shirking his fiduciary responsibilities to shareholders. By November 2008 Yahoo shares had fallen to only $14. In January 2009 the board of directors appointed a new CEO Carol Bartz to replace Mr. Yang.

Another problem might be that corporate governance in India and other emerging economies does not function well. Promoter shareholders have entrenched power and there is not enough legal protection for minority shareholders. For example, none of the acquisitions discussed in this paper involved a shareholder vote, even though some of them radically transformed the company. The market for corporate control is also weak and does not serve as a disciplining force on managerial power. For example, there are almost no hostile takeovers in India.

Easy Capital

Kumar *et al* outline three unique traits of Indian firms that lead to success in acquisitions. First, many Indian companies are part of a group of companies. Second, Indian companies have historically had very high debt-equity ratios. Finally, Indian firms, despite being public, are often controlled by powerful families and individual promoters, who have considerable management leeway. These are three important traits common to many emerging economy firms. However, rather than being strengths, I think these are weaknesses in the context of foreign acquisitions,. The third point about managerial power exacerbates agency problems, as I have discussed above. The first two points lead to access to capital being too easy.

Capital markets by controlling access to capital play an important role in demanding good managerial decisions and penalizing bad choices. This disciplining force is weak in the case on Indian acquisitions abroad. Groups of companies, such as the Tata and Birla groups, can leverage group assets to complete deals that would be difficult for any individual company. Both Corus and JLR have been difficult to finance and have required significant capital infusion from the Tata Group. A group functions as an internal capital market, the same as a conglomerate might do in the developed countries. There is much research in finance and strategy that demonstrates that conglomerate diversification does not create shareholder value, and in fact destroys value -- the so-called 'conglomerate discount'. There is much controversy about whether conglomerates create shareholder value in the context of emerging economies. Khanna and Palepu argue that conglomerates add value in emerging economies because of weak institutions to support basic business operations.[37] Even if one grants this argument in the institutional context of emerging economies, it is unlikely to hold for companies making large foreign acquisitions in a global environment. The lack of managerial focus and lack of the disciplining force of an external capital market probably leads to a conglomerate discount, and is part of the explanation for why these acquisitions do not create shareholder value.

Historically Indian firms borrowed from nationalized banks whose mandate was to support India's economic development. The Indian firms thus had access to artificially cheap or implicitly subsidized debt capital.[38] It is not surprising that they had high debt-equity ratios. This tendency was exacerbated in the boom years before the recent financial crisis, when the global financial markets had underpriced risk. This combination led to the Indian firms taking on much debt to finance their foreign acquisitions for cash. With the increasing globalization of Indian capital markets and the re-pricing of risk everywhere, the Indian acquirers and their shareholders have paid a price for their risky behavior.

Given modern capital markets, deep financial pockets are not a reliable source of competitive advantage. Deep pockets often have big holes; easy capital leads to wastage. Deep insights and managerial capabilities are a much better basis for competitive advantage and value creation.

Formula for Success

The empirical evidence above shows that many large foreign acquisitions from India have not created shareholder value. This phenomenon is not unique to India; large foreign acquisitions from China have probably not done any better.[39] Many of China's foreign acquisitions have been in the areas of energy and natural resources, dictated by national security policy. Leaving these aside, Chinese firms have not done well when they have pursued large foreign acquisitions seeking technology, brands and distribution -- the firm-specific intangible capabilities. For example, TCL, China's large consumer electronic company, seeking technology and to go global acquired assets from France's Alcatel and Thomson. After less than three years and large financial losses, TCL has shut or sold most of its operations in Europe.

This does not mean that emerging economy firms should not do foreign acquisitions. The basic formula for successful acquisitions in general applies just as well in this context. First, there needs to be a sound strategic rationale for synergies. Second, the acquisition price has to be reasonable such that the target firm does not capture all the value created. Third, actually achieving synergies requires good execution, which usually implies deep managerial integration. Successful firms like Cemex and Mittal Steel have created tremendous shareholder value through a series of foreign acquisitions. Both these companies put much emphasis on the above three elements, and especially post-merger integration.[40] United Spirits from India too has achieved success with this approach: significant synergies, reasonable price, and deep integration.

United Spirits Limited (USL) is the flagship company of the United Breweries Group, a conglomerate controlled by Dr. Vijay Mallya. It is the third-largest producer of spirits in the world after Diageo and Pernod Ricard. USL controlled 60% of the market for Indian-made foreign liquor, the oxymoronic term for Western-style hard liquors manufactured in India. It had a smaller share in the premium and super-premium segments. In May 2007 USL acquired Whyte and Mackay, a privately held company that was the fourth-largest distiller of Scotch whiskies, for $1.2 billon. Whyte & Mackay produces W&M blended Scotch whisky and several brands of single-malt Scotch; it also had a large stock of aged single-malt whisky. The stock market reacted very positively to the acquisition driving up the price of United Spirits by 36%, relative to the Sensex index, in six days; its relative returns over one year were even more positive: 67%.

There was a strong rational for synergies from the acquisition. "The company sees significant revenue growth from this acquisition of Whyte and Mackay," a joint statement from the companies said. "In particular, The UB Group will provide access to India and other large emerging markets, allowing an acceleration of Whyte and Mackay's growth plans."[41] At 70 million cases a year, India is the largest whisky market in the world. The upper end of the market is growing rapidly, especially the Scotch whisky segment, which is growing at 35-40% per year.[42] "The potential for premium Scotch whiskey in India is enormous and, with the acquisition of Whyte and Mackay, we now have a strong portfolio of internationally recognized brands that we will immediately introduce into the Indian market and use our strong distribution muscle fully to our advantage," Mallya said. Another source of synergy was that due to "the shortages and rapidly increasing prices of Scotch whisky, we needed a reliable supply source to secure our future considering we use Scotch in our Indian blends." By January 2009, USL had introduced nine brands of Scotch whisky into the Indian market. It had also initiated local bottling of Scotch whisky to attract lower duties and make the product available at a lower price.

USL first bid £400 million to acquire Whyte & Mackay, and finally closed the deal by paying £595 million ($1.2 billion) a year later, an increase in bid price of nearly 50%. While some analysts felt that USL had overpaid for Whyte & Mackay, Mallya insisted "I am satisfied that the price agreed is attractive." At least in hindsight, a significant part of the acquisition price was justified by the inventory of Scotch whisky. Pre-acquisition, Whyte & Mackay had 117 million liters of whisky and the prevailing value was £3.12 per liter; in 2009 the value had risen to £4.65 (about $6.5) per liter, an appreciation of 49%.[43]

USL played a major role in restructuring the operations of Whyte & Mackay and turning around its fortunes in less than one year.[44] Pre-acquisition, Whyte & Mackay had incurred a loss of about £1.2 million, but in 2007-08 it reported a profit of £13 million. Soon after the acquisition, USL appointed Mr. Ashwin Malik, one of its top managers as the CEO of Whyte and Mackay. Earlier, the marketing team was being operated with the help of consultants but now USL has put in place a fully functional and experienced team. At the customer interface level, service replies that used to take a fortnight have now been reduced to 48 hours. Pre-acquisition, Glasgow was the only operations center that ran all its international businesses. USL has since decentralized international operations; the Indian operations are handled from India. USL has also shifted Whyte & Mackay's focus from selling bulk Scotch to bottling the product.

Conclusion

Emerging economy companies contemplating foreign acquisitions would do well to heed the advice of Malvinder Singh, the former CEO of the pharmaceutical firm Ranbaxy, "It's important for companies to look at the economic rationale, and not get taken to extremes by emotion and ego."[45] Following his own advice, Mr. Singh's family, the promoter shareholders, sold their entire 35% stake in the company in June 2008 to Daiichi Sankyo, a Japanese drug producer. Daiichi paid about $5 billion to acquire a controlling interest in Ranbaxy. The Indian press echoed sentiments expressed by Anand Mahindra, chairman of Mahindra & Mahindra (a large Indian automotive company), "I can't help feeling a twinge of regret about an Indian MNC becoming a Japanese subsidiary." By May 2009 Ranbaxy's share price tanked by 70% compared to the acquisition price, forcing Daiichi to write down its investment by $3.6 billion. Mr. Singh resigned from the company and is "ready to move on to other healthcare businesses." As for the billions he earned from the deal, he says "money was not important."[46] Managers however would do well to remember that it is all about money!

Table 1. List of acquisitions

Acquiring Firm	Target Firm	Target Country	Industry	Announcement Date	Completion Date	Acquisition Value ($ million)
Tata Steel Ltd	Corus Group Plc	Great Britain	Iron & Steel	17-Oct-2006	5-Apr-2007	13,454.7
Hindalco Industries Ltd	Novelis Inc	USA	Aluminum	11-Feb-2007	18-May-2007	5,706.1
Oil & Natural Gas Corp Ltd	Imperial Energy Corp Plc	Great Britain	Oil & Gas	26-Aug-2008	1-Feb-2009	2,607.2
Tata Motors Ltd	Jaguar Land Rover Operations	Great Britain/USA	Automotive	26-Mar-2008	2-Jun-2008	2,300.0
Reliance Industries Ltd	Indian Petrochemicals Corp	India	Petrochemicals	10-Mar-2007	22-Feb-2008	2,117.1
HDFC Bank Ltd	Centurion Bank Of Punjab Ltd	India	Banking	23-Feb-2008	16-Jul-2008	1,652.6
Tata Power Co Ltd	Kaltrim Prima Coal & Arutmin	Indonesia	Electricity/Coal mines	31-Mar-2007	27-Jun-2007	1,300.0
United Spirits Ltd	Whyte & Mackay	Great Britain	Beverages	16-May-2007	16-May-2007	1,176.6
GMR Infrastructure Ltd	Intergen NV	Netherlands	Eng. & Construction	24-Jun-2008	13-Oct-2008	1,100.0
Suzlon Energy	Repower Systems Ag-Reg'd	Germany	Electrical equipment	9-Feb-2007	25-May-2007	1,008.6
Tata Chemicals Ltd	General Chemical Ind Product	USA	Chemicals	31-Jan-2008	27-Mar-2008	1,005.0
Oil & Natural Gas Corp Ltd	Greater Nile Oil Project	Canada/Sudan	Oil & Gas	30-Oct-2002	12-Mar-2003	766.1
Tata Group & Tata Tea	Energy Brands Inc	USA	Beverages	23-Aug-2006	25-May-2007	677.0
Aban Offshore Ltd	Sinvest ASA	Norway	Oilfield services	9-Jan-2007	2-Apr-2007	671.4
HCL Technologies Ltd	Axon Group Plc	Great Britain	Software	26-Sep-2008	16-Dec-2008	608.3
Rain Calcining Ltd	CII Carbon Llc	USA	Chemicals	3-Jun-2007	20-Aug-2007	595.0
Dr. Reddy's Laboratories	Betapharm Arzneimittel Gmbh	Germany	Pharmaceuticals	16-Feb-2006	4-Mar-2006	570.3
Wipro Ltd	Infocrossing Inc	USA	Information tech.	6-Aug-2007	21-Sep-2007	547.9
Suzlon Energy Ltd	Eve Holding NV - Allianz SE	Belgium	Electrical equipment	17-Mar-2006	10-May-2006	525.8
Tata Consultancy Svs Ltd	Citigroup Global Services Ltd	India	Information tech.	8-Oct-2008	5-Dec-2008	512.0
Idea Cellular Ltd	Spice Communications Ltd	India	Telecommunications	25-Jun-2008	7-Jul-2008	509.2

Table 2. Stock market returns

Acquiring Firm	Target Country	Relative returns	Abnormal returns	Stock performance
Tata Steel Ltd	Great Britain	25.2%	15.9%	+ +
Hindalco Industries Ltd	USA	-26.1%	-26.9%	- -
Oil & Natural Gas Corp Ltd	Great Britain	6.8%	7.6%	+
Tata Motors Ltd	Great Britain/USA	-36.3%	-31.9%	- -
Reliance Industries Ltd	India	48.8%	45.5%	+ +
HDFC Bank Ltd	India	7.2%	6.7%	+
Tata Power Co Ltd	Indonesia	110.4%	109.4%	+ +
United Spirits Ltd	Great Britain	67.6%	70.5%	+ +
GMR Infrastructure Ltd	Netherlands	42.5%	42.6%	+ +
Suzlon Energy	Germany	4.0%	-1.6%	0
Tata Chemicals Ltd	USA	-4.8%	7.8%	0
Oil & Natural Gas Corp Ltd	Canada/Sudan	-9.4%	-4.0%	-
Tata Group & Tata Tea	USA	-43.2%	-34.5%	- -
Aban Offshore Ltd	Norway	144.0%	139.7%	+ +
HCL Technologies Ltd	Great Britain	26.8%	26.1%	+ +
Rain Calcining Ltd	USA	67.0%	67.8%	+ +
Dr. Reddy's Laboratories	Germany	-16.5%	-32.4%	- -
Wipro Ltd	USA	-3.1%	-4.0%	-
Suzlon Energy Ltd	Belgium	-39.5%	-42.7%	- -
Tata Consultancy Svs Ltd	India	-44.0%	-40.2%	- -
Idea Cellular Ltd	India	-21.2%	-21.0%	- -

Key:		
	Strongly positive (>10% on both measures)	+ +
	Slightly positive (<10% on both measures)	+
	Neutral (different signs on two measures)	0
	Slightly negative (>-10% on both measures)	-
	Strongly negative (<-10% on both measures)	- -

Table 3. Stock performance summary

	Foreign acquisitions	Domestic acquisitions
Strongly positive	7	1
Slightly positive	1	1
Neutral	2	0
Slightly negative	2	0
Strongly negative	5	2
Total	**17**	**4**

Table 4. Comparing short-term and long-term stock market returns

Acquiring Firm	Target Country	Relative returns One-year window	Relative returns Six-day window
Tata Steel Ltd	Great Britain	25.2%	1.3%
Hindalco Industries Ltd	USA	-26.1%	-12.4%
Oil & Natural Gas Corp Ltd	Great Britain	6.8%	4.7%
Tata Motors Ltd	Great Britain/USA	-36.3%	-3.3%
Reliance Industries Ltd	India	48.8%	1.5%
HDFC Bank Ltd	India	7.2%	-1.9%
Tata Power Co Ltd	Indonesia	110.4%	-0.5%
United Spirits Ltd	Great Britain	67.6%	36.0%
GMR Infrastructure Ltd	Netherlands	42.5%	-7.4%
Suzlon Energy	Germany	4.0%	-16.5%
Tata Chemicals Ltd	USA	-4.8%	-7.4%
Oil & Natural Gas Corp Ltd	Canada/Sudan	-9.4%	2.1%
Tata Group & Tata Tea	USA	-43.2%	-4.9%
Aban Offshore Ltd	Norway	144.0%	-7.2%
HCL Technologies Ltd	Great Britain	26.8%	-0.9%
Rain Calcining Ltd	USA	67.0%	12.9%
Dr. Reddy's Laboratories	Germany	-16.5%	15.0%
Wipro Ltd	USA	-3.1%	2.9%
Suzlon Energy Ltd	Belgium	-39.5%	2.2%
Tata Consultancy Svs Ltd	India	-44.0%	-4.5%
Idea Cellular Ltd	India	-21.2%	-2.3%

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