IMPACT OF MERGERS AND ACQUISITIONS ON STOCK PRICES & FINANCIAL RATIOS OF RELIANCE INDUSTRIES LIMITED

1AVI MAHESHWARI

1STUDENT

1CHRIST (DEEMED TO BE UNIVERSITY)

"Mergers and Acquisitions (M&A) are characterized as business consolidation. One of the main facets of the world of corporate finance is M&A. The mentality behind M&A is that 2 freelance corporations along generate a lot of worth compared to being on, Mergers and acquisitions have forever been a challenge for strategic managers and money analysis, that has contributed dramatically to a scenario during which businesses realize it step by step troublesome to remain competitive thanks to the high competition rising from the speedily evolving world market. This research paper would be of interest to a variety of shareholders. Furthermore, the project would provide additional insight into the effect of mergers and acquisitions on the stock prices and accounting ratios, which would be of benefit to researchers and scholars in the same region."

ABOUT THE COMPANIES:

1. **RELIANCE INDUSTRIES LIMITED -** Reliance Industries Limited (RIL) is an Indian multinational conglomerate company that is established and headquartered in Mumbai, Maharashtra, India since its establishment. Reliance owns and functions its business activities across the republic of India that is diversified into telecommunications, energy, petrochemicals, textiles, natural resources and retail.

2. **ALOK INDUSTRIES LIMITED** – An ISO 9001:2000 certified textile producing and manufacturing company headquartered and based in Mumbai since 1986, Alok Industries had set up its first polyester texturizing plant in the year 1989. Its main business involves weaving, knitting, processing, home textiles, ready-made clothes and polyester yarns.

3. **NETWORK 18 MEDIA AND INVESTMENT LIMITED -** Network18 Media & Investments Limited, brought up as Network18 Cluster, is an Indian media conglomerate owned/handled by Reliance

Industries. It is currently the parent company of TV18, DEN Networks and Hathway Cable and Datacom since its restructuring in the year 2020.

LITERATURE REVIEW

Ravi Ranjan and Shweta J. (2008) studied "Corporate Restructuring in India: A Case study of Reliance Industries Limited (RIL)" and concluded that Overachiever is the word that could be associated with every sense of the word 'competitor.' It was further studied that growth of the Indian market is being directly influenced by the mergers and acquisitions and also the new business environment demands more growth opportunities and activities like corporate restructure through amalgamations and takeovers.

Indhumathi and Selvam, (2011) Measured the financial performance of sample companies from the viewpoint of profitability, liquidity, leverage and activity. They found that the shareholders of the acquirer companies, increased their wealth that is the mergers has contributed in the increased the returns for the investment and the acquirer companies has always benefited more than the target companies in the merger event.

Tsung-Ming, Hoshino (2000) studied "The study of the effect of mergers and acquisitions on the Taiwanese corporations" and found that the accounting profitability of the acquiring firms had shown a downward trend and also there in no improvement in other accounting performance of the corporations.

Saboo, Sunil, Sidharth and Gopi (2009) studied "Comparison of Post-Merger performance of Acquiring Firms (India) involved in Domestic and Cross-Border Acquisitions" and concluded that merger, acquisitions or an corporate restructuring are majorly used in improving the competitive capability of companies and also enhancing their competitive advantage over other firms through gaining greater market share, broadening the portfolio to reduce the risk associated with business.

RESEARCH DESIGN

Title of the Project

Impact of Mergers and Acquisitions on Stock Prices & Financial Ratios of Reliance Industries Limited (RIL)

Objectives

- To determine the impact of pre and post mergers and acquisitions on stock prices and financial/accounting ratios of Reliance Industries Limited after acquiring Alok Industries Limited.

- To determine the impact of pre and post mergers and acquisitions on stock prices and financial/accounting ratios of Reliance Industries Limited after acquiring Network 18 Media and Investments Limited.

- To determine the impact of pre and post mergers and acquisitions on stock prices and financial/accounting ratios of Alok Industries Limited after being acquired by Reliance Industries Limited.

- To determine the impact of pre and post mergers and acquisitions on stock prices and financial/accounting ratios of Network 18 Media and Investments Limited after being acquired by Reliance Industries Limited.

Need for the Study

Stock market is an important indicator of the financial system and the economic health of the country. It provides investors an alternative source for investment and increases their savings thereby increasing their standard of living. The market index provides a yardstick to measure the performance of a particular stock and also provides investors for forecasting future trends in market's movements. BSE SENSEX is the oldest stock index in India and thus is a good measure to conduct a research with. Also, the company stock price indices on BSE which have been used in the research(Reliance Industries Limited, Alok Industries Limited and Network 18 Media and Investments Limited) are one of the prominent and popular companies in the Indian Stock Market. The main need of the study is to analyse the impact of pre and post mergers and acquisitions on the stock market prices and financial/accounting ratios of the above mentioned companies.

Sampling Size and Sampling Techniques

To make things simpler and easier to understand and based on the availability of data, the daily data has been taken for 1 month for each of the variables. All variables change continuously in the dataset as the closing price of the indices are volatile and change as per market demand and supply and thus the Pre-Merger and Acquisition stock market prices and Post-merger and acquisition stock market prices data has been taken from the BSE Index.

For each of the companies, daily closing price has been taken for 1 month Pre-Merger and Acquisition stock market prices and 1 month Post-merger and acquisition stock market prices. To make the comparison same and even, the daily closing price has been taken.

Methods of Data Collection

The entire study has been done with secondary data and no primary data has been used whatsoever. BSE SENSEX closing price for 1 months before mergers and acquisitions and 1 months after the mergers and acquisitions has been taken from BSE website. Then, BSE RIL INDEX, BSE ALOK TEXT INDEX, BSE NETWORK 18 INDEX close prices have been taken from the BSE website on the similar lines by taking historical prices of the index in the data collection section. Sensex is the oldest index in the Indian stock market and the most relevant data is available as per the accordance of research study undertaken. Further, Ace Analyser is used to verify the financial/accounting ratios.

Research Gap

Many researchers have done study on the effect of mergers and acquisitions on the financial performance of Reliance Industries Limited (RIL). But most of the researchers have not done on the impact of the merger and acquisition activity on stock prices and financial/accounting ratios of Reliance Industries Limited (RIL) with reference to the acquisition of Alok Industries Limited and Network 18 Media and Investments Limited. So, this research mainly focuses on the acquisition that has happened between Reliance Industries Limited (RIL), Alok Industries Limited and Network 18 Media and Investments Limited and thus finding out the impact of it on the stock market prices and financial/accounting ratios.

Variables of the Study

- PRE-MERGER AND ACQUISITION RELIANCE INDUSTRIES LIMITED STOCK INDEX PRICES

- PRE-MERGER AND ACQUISITION ALOK INDUSTRIES LIMITED STOCK INDEX PRICES

- PRE-MERGER AND ACQUISITION NETWORK 18 MEDIA AND INVESTMENTS LIMITED STOCK INDEX PRICES

- POST-MERGER AND ACQUISITION RELIANCE INDUSTRIES LIMITED STOCK INDEX PRICES

- POST-MERGER AND ACQUISITION ALOK INDUSTRIES LIMITED STOCK INDEX PRICES

- POST-MERGER AND ACQUISITION NETWORK 18 MEDIA AND INVESTMENTS LIMITED STOCK INDEX PRICES

Design of the Study

The design of the study is in such a way that the study adopts a descriptive and exploratory research design in order to determine the effect of mergers and acquisitions on the stock market prices and also the financial/accounting ratios of Reliance Industries Limited (RIL) Alok Industries Limited and Network 18 Media and Investments Limited.

General Methodology Adopted for the Study

Paired Sample T Test

The paired sample t-test is a statistical procedure used to determine whether the mean difference between two sets of observations is zero. In a paired sample t-test, each subject or entity is measured twice, resulting in pairs of observations. It is very useful when checking the impact of an event on the variables and hence the test can be performed before the event and after the event to find the real effect on the variables.

Hypothesis

NULL HYPOTHESIS – The null hypothesis is that there is no impact of pre and post-merger and acquisition on the stock prices and accounting/financial ratios of Reliance Industries Limited (RIL), Alok Industries Limited and Network 18 Media and Investments Limited.

ALTERNATE HYPOTHESIS - The alternate hypothesis is that there is an impact of pre and post-merger and acquisition on the stock prices and accounting/financial ratios of Reliance Industries Limited (RIL), Alok Industries Limited and Network 18 Media and Investments Limited.

Paired Sample T Test

CASE OF RELIANCE INDUSTRIES LIMITED (RIL) AND NETWORK 18 MEDIA AND INVESTMENTS LIMITED (NETWORK 18)

t-Test: Paired Two Sample for Means

RIL

	PRE MERGER RIL Closing Price	POST MERGER RIL Closing Price
Mean	1517.082609	1420.932609
Variance	1341.072638	3538.367638
Observations	23	23
Pearson Correlation	0.810437339	
Hypothesized Mean Difference	0	
df	22	
t Stat	12.55654946	
P(T<=t) one-tail	8.28202E-12	
t Critical one-tail	1.717144374	
P(T<=t) two-tail	1.6564E-11	
t Critical two-tail	2.073873068	

According to the above table, the mean return value for pre and post mergers and acquisitions stock market prices is 1517.08, the T value is 12.55 and the significant 2 tailed analysis value is 2.073, which is above the significant value 0.05. This conclusion indicates that (RIL) Reliance Industries Limited's stock market prices has no significant/ an insignificant relationship between pre and post mergers and acquisitions with Network 18 Media and Investments Limited (NETWORK 18).

t-Test: Paired Two Sample for Means

NETWORK 18

	POST MERGER NETWORK 18 Closing Price	PRE MERGER NETWORK 18 Closing Price
Mean	28.14565217	26.53478261
Variance	4.512934783	2.168507905
Observations	23	23
Pearson Correlation	0.414556709	
Hypothesized Mean Difference	0	
df	22	
t Stat	3.82106005	
P(T<=t) one-tail	0.000466097	
t Critical one-tail	1.717144374	
P(T<=t) two-tail	0.000932194	
t Critical two-tail	2.073873068	

According to the above table, the mean return value for pre and post mergers and acquisitions stock market prices is 28.145, the T value is 3.821 and the significant 2 tailed analysis value is 2.073, which is above the significant value 0.05. This conclusion indicates that Network 18 Media and Investment Limited's stock market prices has no significant/ an insignificant relationship between pre and post mergers and acquisitions with Reliance Industries Limited (RIL).

CASE OF RELIANCE INDUSTRIES LIMITED (RIL) AND ALOK INDUSTRIES LIMITED (ALOKTEXT)

According to the above table, the mean return value for pre and post mergers and acquisitions stock market prices is 1450.13, the T value is 10.779 and the significant 2 tailed analysis value is 2.073, which is above the significant value 0.05. This conclusion indicates that (RIL) Reliance Industries Limited's stock market prices

t-Test: Paired Two Sample for Means

RIL

	PRE MERGER RIL CLOSING PRICE	POST MERGER CLOSING PRICE OF RIL
Mean	1450.130435	1110.736957
Variance	1268.041986	20075.18664
Observations	23	23
Pearson Correlation	-0.144521054	
Hypothesized Mean Difference	0	
df	22	
t Stat	10.77916406	
P(T<=t) one-tail	1.51512E-10	
t Critical one-tail	1.717144374	
P(T<=t) two-tail	3.03023E-10	
t Critical two-tail	2.073873068	

has no significant/ an insignificant relationship between pre and post mergers and acquisitions with Alok Industries Limited (ALOKTEXT).

t-Test: Paired Two Sample for Means

ALOKTEXT

	PRE MERGER ALOKTEXT Closing Price	POST MERGER ALOKTEXT Closing Price
Mean	10.898	9.982
Variance	43.82239556	5.089084444
Observations	10	10
Pearson Correlation	-0.821056048	
Hypothesized Mean Difference	0	
df	9	
t Stat	0.338022763	
P(T<=t) one-tail	0.371548594	
t Critical one-tail	1.833112933	
P(T<=t) two-tail	0.743097188	
t Critical two-tail	2.262157163	

According to the above table, the mean return value for pre and post mergers and acquisitions stock market prices is 10.898, the T value is 0.338 and the significant 2 tailed analysis value is 2.262, which is above the significant value 0.05. This conclusion indicates that Alok Industries Limited's stock market prices has no significant/ an insignificant relationship between pre and post mergers and acquisitions with Reliance Industries Limited (RIL).

SUMMARY OF FINDINGS

The Paired Sample t test reflects an insignificant value of pre and post mergers and acquisitions stock market prices that is above the significant level of 0.05 and clearly depicts that there is no impact of mergers and acquisitions on the stock market prices of the companies.

RECOMMENDATION AND CONCLUSION

The primary motive or aim of this research sought to investigate the impact and effects of Mergers and Acquisitions on the stock prices and accounting ratios of Reliance Industries Limited, Alok Industries Limited and Network 18 Media and Investments Limited with variables pre and post-merger stock prices and financial ratios being used. The Paired Sample t test reflects an insignificant value of pre and post mergers and acquisitions stock market prices that is above the significant level of 0.05 and clearly depicts that there is no impact of mergers and acquisitions on the stock market prices of the companies. The second aim/objective was to analyze the impact of mergers and acquisitions on the financial/accounting ratios of the companies. There was no impact of mergers and acquisitions seen or observed on the financial/accounting ratios of the companies.

Scope for Future Researchers

Indian Stock Market is an evergreen and developing market. So, there is always a scope for future research as macro-economic factors keep on changing. It is also evident that Mergers and acquisitions have been becoming an effective as well as an essential element for most of the industrial activities. In a developing nation like India, further studies and research will be appropriately suitable. This study is limited to the impact on stock prices of just three companies. However, future research can be done to explore the impact of mergers and acquisitions on stock prices of different companies across various different industries at a large scale. Moreover, there are also miscellaneous macroeconomic variables that influence the stock markets which are not taken into consideration in our study.