Identifying potential targets and acquirer firms in a sector

**Abstract**: Mergers and Acquisitions are anything easy to think however difficult to execute, as there are three stages including Pre, Transition, Post stage. There is a most important stage which we as a whole miss considering, that is the choice of target organization. The purpose of this paper is to discover the attributes and thus decide the target organizations in the market utilizing logistic regression. Now-a-days merger/acquisition is exceptionally useful in the development procedure of the organization and winds up obligatory. To extend in the market organizations are procuring/combining to an ever increasing extent. In the event that organization isn't engaged with these exercises either the development will turn out to be moderate or it may be procured by the other huge players in the market.

**Keywords**: Merger, Acquisition, Promoter holding, Shareholder’s Wealth, Industry Relative Ratio, Cut-off Calculation.

**Introduction**: Merger is a scenario in which two existing companies unite to become one new company. Acquisition is where one firm acquires more than 55% ownership in another firm. Investing in the assets will result in the internal expansion but merger offer the additional external expansion. The firms with less opportunities in investment can increase their opportunities with mergers and acquisitions. Acquisitions, Takeovers, Mergers have been used interchangeably to describe a position where two companies come together to gain the benefits by facing the competition together. After overserving the trends of the mergers and acquisitions there might be some characteristics which might determine the firm can a target or not. This paper considers some of those characteristics and tries to predict the targets with those characteristics.

**Literature Review**:  
This section will give exhibit of the literature on takeover prediction and will focus on the empirical studies on takeovers and their findings and issues. Second, the characteristics of the target firms that are found in takeovers. Finally, abnormal returns that can be generated with these models.  
  
The first study to be carried out on prediction of takeover targets was by Simkowitz & Monroe (1971). They used a multiple discriminant model and found difference in the financial characteristics of between the targets and non-targets. They concluded that targets have lower market capitalization, lower price to earnings ratio (P/E) low dividend payout, lower equity growth when compared to the acquiring firm. They further observe that non-financial characteristics appeared to be important.  
  
Stevens (1973) used multiple discriminant model and found that liquidity and profitability were important measures and this was in contradiction to Simkowitz & Monroe findings. Harris, Stewart, Guilkey & Carleton (1982) used a univariate probit model, according to liquidity & leverage were important factors.

Dietrich & Sorensen (1984) first used the Logistic regression model this method had an advantage as it could also give probability of event.

Palepu (1986) focused on correcting methodological flaws in the previous study, his study was one of the important studies carried out. Using Logistic regression, it was found that management inefficiency, size, growth-resources & industry disturbances to be significant factors but the study rejects the P/E & market to book(M/B) value ratios as significant factors. For prediction he used sample that was close to population and using of cut-off probabilities.

Ambrose and Megginson (1992) utilized measures, for example, insider and institutional shareholdings keeping in mind the end goal to inspect the impact of different takeover resistances. They have additionally considered the impact of differing extents of fixed assets in the aggregate resource structure of the organizations.

Kim and Arbel, (1998) investigated the differentiating characteristics of merger target firms in the hospitality industry. They have used a binomial logit analysis model to predict merger targets.

Pawaskar (2001) found that the mergers and acquisitions are generally between lower size firms. The organizations that were targets additionally happened to have low development rates in resources and have bring down current proportions .

Aigbe Akhibge and Anna D. Martin (2002) studied the acquisitions by Microsoft. This study was company specific and found that the acquisitions were not received favorably by the financial markets.

Powell (2004) took in account whether the takeover is friendly or hostile to determine the correct cut-off probability. For predictions in this study we will employ minimizations of error method by Palepu (1986).

Espahbodi and Espahbodi (2003) attempted four unique methods to be specific logit, probit, discriminant and recursive situating models to look at the prescient correctness of these models. Tsagkanos, Georgopoulos and Siriopoulos (2006) stretched out this philosophy to restrictive logit model to enhance the consistency.

Kumar and Rajib (2007) results showed that growth in sales is an important factor in identifying the takeover targets.

Beena (2008) investigated different proportions of acquirers in India amid 1995– 2000. She expressed that the gainfulness proportions of all the getting firms in the post-M&A period either continued as before or declined when contrasted with those in the pre-M&A period. The limit use proportion and R&D force declined after M&As. The investors of acquirers were paid higher returns as profits to win their certainty after the obtaining. The financing structure additionally changed from 1995 to 2005. In 1995, firms were needy more on outer financing, with 34% of financing originating from capital markets, 22% from obtaining, 17% from current liabilities, and the staying 27% from interior sources. In 2005, just 7% of financing originated from capital markets; 37% originated from obtaining, 30% from current liabilities, and the staying 20% from inner sources. This adjustment in the example of financing structure fits in with the pecking request hypothesis, which expresses that a firm inclines toward inward financing took after by borrowings; a firm goes for financing from outer capital markets if all else fails.

Misra (2009) reported that the trading volume and the ratio of dividend to net profits were significant variables that define a typical target in food and beverage industry.

Bhagat et al. (2011) studied cross-border acquisitions done by firms from emerging economies like India, Malaysia, China, and Brazil during 1991–2008. The value of international acquisitions stood at USD 182 billion in 2008, constituting 66% of the total FDI outflow from the emerging economies. Most of the targets were from developed countries. In such international acquisitions, the acquirers from emerging economies gain an average of 1.09% on the announcement date. This positive return is directly related to the improved corporate governance standards in the target country.

Bhaumik and Selarka (2012) examined Indian M&As that happened during 1954–2004. They analysed the impact of owner concentration on the post-M&A performance of firms. The result suggests that the post-M&A performance of companies may improve if a significant portion of its ownership is in the hands of company directors. However, ownership concentration in the hands of domestic promoters does not impact the post-M&A performance of a company.

Kalghatgi, (2012) considered the riches impacts of mergers and acquisitions in the Indian IT Industry amid the period 2008-2010. He utilized an occasion ponder investigation which uncovered that the shareholders of the procuring firms did not pick up altogether regarding returns.

Banerjee et al. (2014) considered all the acquisitions done by Indian acquirers during 1995–2011. They showed that Indian acquirers created shareholder value until 2007; from 2008 to 2011, the returns accrued to Indian acquirers were negative. There was a steep decline in the abnormal returns accrued to the acquirers in 2008–2011. This study determined the increasing intensity of the market for corporate control as measured by an increased number of participants in M&A activities to be the reason for the declining acquirer returns in Indian M&As.