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THE ECONOMIC PERFORMANCE OF CROSS BORDER MERGERS AND ACQUISITIONS- A CASE OF ONGC VIDESH LTD.

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Abstract
Mergers and Acquisitions (M & A) have become a vital part of the Indian Oil and Gas sector since the last two decades. The major oil and gas companies are using M & A with varied motives. There is cut throat competition among them and M & A have assumed vital importance. According to the valuation of the deals, India holds the 11th position globally.[1] ONGC is the leading oil company in India in making substantial amount of cross border acquisitions through its wholly owned subsidiary ONGC Videsh Limited.The objective of the research will be to analyze the announcement effect of cross border acquisitions by ONGC Videsh ltd on its shareholders.Event study method will be used to analyze the impact of the acquisition announcement by calculating the abnormal return around short window periods. The research type would be analytical. The data will be collected from secondary sources with qualitative data from newspapers, journals and quantitative data from BSE Website.

This will give insight regarding the announced benefits by the management of ONGC and market perception.

Keywords: Cross border Acquisitions, Announcement effect, ONGC Videsh Ltd, Event study.

1. Introduction
Mergers and Acquisitions (M & A) have become a vital part of the Indian Oil and Gas sector since the last two decades. The major oil and gas companies are using M & A with varied motives. This is the era of liberalization, privatization and globalization, as a result of which the companies in different countries of the world are exposed to a plethora of challenges from the national and international markets. There is cut throat competition among them and M & A have assumed vital importance.
M & A are the most popular means of corporate restructuring or business combinations. One plus one makes three this equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the 2 companies. Two companies together are more valuable than two separate companies at least that is the reason for M & A. (Investopedia, 2010)
According the valuation of the deals, India holds the 11th position globally. (Deloitte, 2011). Usually M & A are used synonymously and are uttered in the same breath but their meanings are slightly different. (Investopedia, 2010)

1.1 Mergers
Merger is said to occur when two or more companies combine into one company. Merger is defined as a transaction involving two or more companies in the exchange of securities and only one company survives. (Roberts, Wallace, & Moles, 2012)
When the shareholders of more than one company, usually two decides to pool the resources of the company under a common entity it is called Merger.
If as a result of a merger a new company comes into existence it is called Amalgamation.
On the other hand due to a Merger if one company survives and the other loses its independent entity it is called Absorption.

[1] Deloitte. (2011). *Mergers & Acquisitions.* Deloitte. ww2.deloitte.com/content/dam /Deloitte/global /Documents /Mergers-and- acquisitions/gx_ma_dtme_oilgasesurvey.pdf

1.2 Acquisition

Acquisition is defined as purchase of a company or a part of it so that the acquired company is completely absorbed the acquiring company and thereby no longer exists as a business entity. (Roberts, Wallace, & Moles, 2012)

An acquisition or takeover is the purchase by one company of controlling interest in the share capital, or all or substantially all of the assets and/or liabilities, of another company. A takeover may be friendly or hostile, depending on the offer or company's approach, and may be effected through agreements between the offer or and the majority shareholders, purchase of shares from the open market, or by making an offer for the acquisition of offeree's shares to the entire body of shareholders.

This paper involves in finding out the announcement effect of cross border in the Indian Oil and Gas Industry by using the Event study approach. As ONGC is the major company involved in cross border acquisition for India through its wholly owned subsidiary ONGC Videsh Limited, only its cross border acquisitions are considered for the scope of this paper.

2. Indian Oil and Gas Industry

The consumption pattern of India's oil and gas industry is increasing at an alarming in the last few years. The consumption of crude oil for India in the year 2010-11 stood at 206 Mn. Tonnes according to refinery crude throughput out of which India's production was a mere 37.68 Mn. Tonnes (Statistics, 2013), that is approximately 18%. The rest of the 72% was imported which is a huge amount. The proven oil and gas reserves of India are not much if compared to its rising demand. So the Government of India is looking for cross border asset or oil and gas field acquisitions to ease the burden of the rising demand.

3. Oil and Natural Gas Corporation

Oil and Natural Gas Corporation (ONGC) is the major PSU or National Oil Company of India involved in the upstream industry. Since its inception in 1959 it has been instrumental in developing India's upstream industry (ONGC, 2013). To pave the way for cross border acquisitions, so as to ease the rising crude oil and gas demand of India, It rechristened the ONGC Videsh Limted from the erstwhile Hydrocarbons India Private Limited in the year 1989 (ONGC, ONGC Videsh Ltd., 2013). ONGC Videsh Limted is the fully owned subsidiary of Oil and Natural Gas Corporation and is the major company involved in cross border acquisitions outside India.

Two types of asset acquisitions are seen in the history ONGC Videsh Limited, one involves the normal acquisitions which includes acquiring whole or part of an asset already owned wholly or partly by a company. The other being those assets acquired (in a consortium or alone) through the bidding process by the concerned government bodies of the respective countries. The list of cross border acquisitions of ONGC Videsh Limited is given the following two tables.

Table 3.1 ONGC Cross Border Asset Acquisitions of Assets Already Owned by other Companies

Serial No	Announcement Date	Company Acquired	% acquired	Value(USD)(if mentioned)
1	14/10/2013	Petrobras (Block BC 10 in Brazil)	12%	529.03 million
2	25/06/2013	Videocon Mozambique Rovuma 1 Limited (Videocon Mauritius Energy Limited)	10%	2,475 million

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3	26/09/2012	Conocophilips (Kashgan field)	8.40%	NA
4	7/09/ 2012	Hess (ACG fields and BTC pipeline)	2.7123% and 2.36%	1 Billion
5	21/12/2005	PetroCanada(4 blocks in Syria)(alongwith Fulin Investments, S.A.R.L	100%	NA
6	3/9/2004	Repsol- YPF(Cuba)	30%	NA
7	15/09/2005	Repsol- YPF(Cuba)	30%	NA
8	30/08/2004	Antrim Energy Inc. (Block WA 306 P,Austrailia)	55%	NA
9	8/4/2004	Shell (Block 18 in Angola)	100% (50%)	600 million
10	2/9/2003	OMV Aktiengesellschaft(Sudan)	26.125% and 24.5%	115 million
11	22/08/2002	Turkish Petroleum Overseas Coorperation Corporation (block NC 188 and 189 in Libya)	49%	NA

Source: compiled from CMIE Prowess

Table 3.2: Asset Acquisitions Won through Bidding

Serial No	Announcement Date	Country	Blocks	Consortium (if mentioned)
1	28/12/2007	Brazil	2	Petrobras, Perenco
2	21/09/2007	Colombia	3	Ecopetrol, Petrobras
3	12/9/2006	Cuba	2	
4	29/07/2006	Vietnam	2	
5	29/09/2005	Vietnam	1	
6	3/3/2005	Qatar	1	

Source: compiled from CMIE Prowess

4. Literature Review

Mergers and acquisitions are the best form of in-organic growth. There are several motives why companies look for acquisitions. The field has brought forward a total of seven different theories (Trautwein, 1990) of merger motives which fall broadly in to two theories of firm, shareholders value maximization motive or managerial benefits.

Several studies have tried to explore the financial gain to the shareholders of the acquirers in mergers and acquisitions. The number of studies exploring M&A benefits and the methodological rigor is higher in developed countries like US and UK compared to India as M&A is a comparatively recent phenomenon in India and it has so far not attracted academic concern.

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Table 4.1: General Merger Motives and Theories

<table>
<tr><th colspan="3">Merger Motives</th><th>Theories</th><th>Description</th></tr>
<tr><td rowspan="4">Mergers as Rational Choices</td><td rowspan="4">Merger Benefits Bidder's Shareholders</td><td>Net gains through synergies</td><td>Efficiency Theory</td><td>Exploiting financial operational and managerial synergies</td></tr>
<tr><td>Wealth transfer's from customers</td><td>Monopoly Theory</td><td>Achieving Market Power</td></tr>
<tr><td>Wealth transfer's from target shareholders</td><td>Raider Theory</td><td>Activities of Corporate raiders</td></tr>
<tr><td>Net gains through private information</td><td>Valuation Theory</td><td>Exploiting information asymmetries between the acquirer and the public</td></tr>
<tr><td></td><td colspan="2">Merger Benefits Managers</td><td>Empire-building Theory</td><td>Managers' personal benefits rather than shareholder value</td></tr>
<tr><td colspan="3">Mergers as Process outcomes</td><td>Process Theory</td><td>Strategic decision processes leading to (and after) the merger</td></tr>
<tr><td colspan="3">Mergers are macroeconomic phenomenon</td><td>Disturbance Theory</td><td>Mergers as a consequence of economic disturbances</td></tr>
</table>

(Source: (Trautwein, 1990))

4.1 General Motives behind M & A

In General there are many motives behind M & A

According to Srinavasan and Mishra who took 30 samples of recent M & A among they grouped the motives behind M & A under the following headings

Intents of Market Leaders

This motive is consistent with the monopoly theory of increasing market share in M & A. Market leaders generally use horizontal mergers to strengthen their market position and/or to gain market share. In the case of divided industries, horizontal mergers are a way of achieving top-line growth and hence gain market leadership.

Intents of Other Profitable companies

Profitable or cash rich firms merge or acquire firms with similar/ complementary products in order to gain market leadership.

Intents of Loss Making Firms

Loss making firms often exit by getting themselves acquired by other firm’s inorder to accumulate their losses and/or long term loans.

Intents of Domestic Companies selling off to MNCs/merging with foreign companies

Domestic Companies often sell themselves to MNCs to gain entry into new markets. Domestic firms’ sell-off to MNCs may help generate cash to increase their growth opportunities.

Intents of MNCs acquiring Domestic companies

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The main reason behind MNCs acquiring Indian firms is to get entry into the Indian market. (Srinivasan & Mishra, 2007)

According to Federal Trade Commission's report on Mergers in the Petroleum Industry, maximization of profits is the primary power behind a merger activity. A merger can increase profit through synergies or increasing economic efficiency, regulation, distributing taxes, enhanced market power, capture of "undervalued" assets, and financial considerations. (Mergers in the Petroeum Industry, 1983)

4.2 General Consequences of M & A

According to a global survey done by KPMG on the aims of M & A, market share and access to markets remained the key determinants. Of the sample of 107 companies from all around the world, only 20% cited shareholder value as a key determinant of the M & A motive, implying that 80% of the sample companies failed to recognize the importance of the focus on shareholder value. (KPMG, 2006)

According to another survey done by PricewaterhouseCoopers using a sample of 245 major UK companies, 50% of the European deals generated a positive return over the 12 months following the deal, with a median gain of 1.5%, but the average effect was negative by 3%. In other words, the risks associated with M & A deals appear to be weighted somewhat to the downside for acquirer shareholders. (PricewaterhouseCoopers, 2006).

4.3 Announcement effect of Acquisitions

According to American Association of Individual Investors, the announcement effect of an acquisition may have a positive or negative impact on the company's stock prices accordingly as the market forecast the concerned deal to be profitable or not. In both the cases where there is an announcement effect whether positive or negative, the market or the investors did not expect a company to undergo such a change at that particular point of time. If the venture is expected to earn higher or lower return on the investment made, the stock prices show the similar path. (AAII, 2013)

5. Research Methodology

5.1 Research Objective

The objective of this research is to determine the announcement effect of cross border acquisitions on a company's stock market in the Indian Oil and Gas Sector.

5.2 Research Type

This research is analytical as it is based calculations of average abnormal return on the stock price in the event of announcement of a cross border asset acquisition of ONGC through its fully own subsidiary ONGC Videsh Limited.

5.3 Research Design

An Event study approach is considered in this research to determine the average abnormal return in the event of cross border asset acquisition of ONGC.

5.4 Data

This research contains secondary data only from the following sources

1. Qualitative data is collected from journals, websites, books
2. Quantitative data is collected from BSE website.

5.5 Assumptions

The following assumptions are made to help in the calculations for the concerned research

1. In the event of an announcement of a cross border acquisition of ONGC Videsh Limited, it is accordingly reflected in the Stock price Of ONGC
2. Reteurn on ONGC's stock price during the normal course is assumed to have a linear relationship with return on S & P Oil and Gas Index mentioned in the BSE website according to the following equation

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$$Y = \alpha + \beta * X$$

Where Y: Return on ONGC's stock price for the particular day
X: Return on S & P Oil and Gas Index of that day
α: Y intercept of the linear relationship β: Slope of the linear relationship
Effect of other events are assumed to be negligible on ONGC's stock price compared to the event of cross border acquisitions during the event of such an announcement

5.6 Research Scope

The following cross border acquisitions are considered are considered in the study

Table 5.6.1: ONGC Cross Border Asset Acquisitions of Assets already owned by other Companies.

Serial No	Announce ment Date	Company Acquired	% acquired	Value(USD)(if mentioned)
1	14/10/2013	Petrobras (Block BC 10 in Brazil)	12%	529.03 million
2	25/06/2013	Videocon Mozambique Rovuma 1 Limited (Videocon Mauritius Energy Limited)	10%	2,475 million
3	7/09/ 2012	Hess (ACG fields and BTC pipeline)	2.7123%and 2.36%	1 Billion
4	21/12/2005	PetroCanada(4 blocks in Syria)	100%	
5	3/9/2004	Repsol- YPF(Cuba)	30%	
6	15/09/2005	Repsol- YPF(Cuba)	30%	
7	30/08/2004	Antrim Energy Inc. (Block WA 306 P,Austrailia)	55%	
8	8/4/2004	Shell (Block 18 in Angola)	100% (50%)	600 million
9	2/9/2003	OMV Aktiengesellschaft(Sudan)	26.125% and 24.5%	115 million
10	22/08/2002	Turkish Petroleum Overseas Coorperation Corporation (block NC 188 and 189 in Libya)	49%	

Table 5.6.2: Asset Acquisitions Won through Bidding

Serial No	Announcement Date	Country	Blocks	Consortium (if mentioned)
1	28/12/2007	Brazil	2	Petrobras, Perenco
2	21/09/2007	Colombia	3	Ecopetrol, Petrobras
3	29/07/2006	Vietnam	2	
4	3/3/2005	Qatar	1	

5.7 Calculations

The announcement dates of the concerned acquisition are obtained from the news archives of ONGC Videsh Limited. A month before each announcement is considered to be the normal period as overlapped acquisitions are not taken into account for the research. A month long event study is considered first to determined attributes of the linear relationship between ONGC's stock price and the S & P Oil and Gas Index for each event. Thereafter return of stock price of ONGC is predicted during the course of the event using the equation just determined and it is compared to the return of S & P Oil and Gas Index and Abnormal return is calculated. After that Average Abnormal return is

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determined and its sum would depict the corresponding effect (positive or negative) on stock price of ONGC.

6. Findings and Analysis

The table involving the final calculation of abnormal return is shown below

Table 6.1,The Abnormal Return from the share acquisitions

Deal	10 Day Average Abnormal Return	10 days cumulative Abnormal Return
Petrobras (Block BC 10 in Brazil)	0.01	0.08
Videocon Mozambique Rovuma 1 Limited (Videocon Mauritius Energy Limited)	-0.38	-3.04
Hess (ACG fields and BTC pipeline)	-0.33	-2.64
PetroCanada(4 blocks in Syria)	-0.17	-1.36
Repsol- YPF(Cuba)	0.27	2.16
Repsol- YPF(Cuba)	-0.11	-0.88
Antrim Energy Inc. (Block WA 306 P,Austrailia)	-0.27	-2.16
Shell (Block 18 in Angola)	-0.71	-5.68
OMV Aktiengesellschaft(Sudan)	0.57	4.56
Turkish Petroleum Overseas Coorperation Corporation (block NC 188 and 189 in Libya)	-0.37	-2.96

Average Cumulative Abnormal Return = 1.19

Table 6.2, The Abnormal Return from the Asset Acquisitions

Announcement Date	Country	10 Day Average Abnormal Return	10 days cumulative Abnormal Return
28/12/2007	Brazil	0.8825	7.06
21/09/2007	Colombia	0.595	4.76
29/07/2006	Vietnam	1.96875	15.75
3/3/2005	Qatar	0.595	4.76

Average Cumulative Abnormal Return= 8.08

From the figure it is clearly seen that the cumulative average abnormal return (CAAR 1) in case of normal cross border asset acquisitions which were already owned by different companies is negative that is around 1.19% (from AR1 to AR10). This concludes a negative announcement effect of these acquisitions. The other type of cross border asset acquisitions which were acquired through bidding (denoted by ARB1- ARB4) also shows a more negative cumulative average abnormal return that is approximately 8% (CAAR 2).

Both the announcement effects are found to be negative indicating that the investors or the market is finding the cross border acquisitions a low return on investment compared to the normal course. This can be due to the fact that the market analyses that ONGC is paying more to acquire these cross border acquisitions compared to its actual value. In a way ONGC has to bid at a higher value to win the particular asset over other companies.

Also the acquisitions won through bidding have a more negative announcement effect than those acquired from already owned by other companies. This denotes that the ones won through bidding have a greater investment but lesser return.

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7. Conclusion

Event study Approach was developed Brown and Warner in the year 1985 (Brown & Warner, 1985) for the first time to estimate the value of stock prices. Although there is much randomness observed in the value stock price a linear can be assumed between the stock price and the corresponding index for a long period and hence the constants can be determined.

The conclusion to the announcement effects of both the types of cross border acquisitions are found to be negative, higher being in the case of bidding. The acquisitions have not created value for the shareholders of ONGC ltd. But at the same time it can be concluded that OVL is not at par with other competitors globally in terms of technology and efficiency. That possibly could be the reason of the negative returns to the acquirers.

Managers at ONGC are optimistic about the acquisitions and report that these acquisitions increase the revenue and profit and also assets of the company at a cheaper rate.

The limitations of the study include a linear relationship between the ONGC's stock price and that of the S & P Oil and Gas Index may include some random disturbances. The study can be extended to find the motives of the acquisitions done by ONGC and the results thereof. This can give a justification of acquisitions even though they are not value enhancing for the shareholders in the short run.

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