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IMPACT OF COVID 19 ON M&A AND SHAREHOLDERS' WEALTH IN THE TRAVEL INDUSTRY: A STUDY WITH REFERENCE TO EBIX YATRA MERGER

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ABSTRACT

Mergers and acquisitions among the companies in travel and leisure industry is a very common strategy to sustain growth. However, COVID 19 pandemic has impacted the travel industry more than any other disease in the history ever. This paper studies the impact of COVID 19 on the mergers and acquisitions in the travel and tourism sector with reference to the termination of the Ebix Yatra acquisition deal. The outside date of the merger agreement between US based Ebix Inc. and Yatra Online Inc., which was announced on 17th July 2019, was extended to June 4, 2020 and was terminated by Yatra on June 5, 2020. The paper analyzes the initial impact of the announcement made by US based Ebix Inc. to acquire Yatra Online Inc. on shareholders' wealth of both the companies and the impact on the shareholders' wealth when the deal was announced to be terminated. Event Study methodology has been followed and market model has been used in our study to calculate the expected and the abnormal return of the shareholders of the acquiring company (Ebix Inc.) and the acquired company (Yatra Online Inc.). The results indicate the initial announcement of merger had not resulted in any significant change in the shareholders wealth of Ebix, but the shareholders of Yatra assumed significant positive abnormal return in the very short periods of 5 day (-2, +2), 6 days (-2,+3) and 7 days (-3,+3) around the event window. However, on the news of termination of the deal, none of the shareholders' of Yatra or Ebix witnessed significant positive or negative cumulative abnormal return around any of the event windows, showing no significant change in shareholders' wealth on merger termination news.

KEYWORDS: *Covid 19 impact on M&A in Travel Sector, Ebix Inc., Yatra Online, Shareholders' Wealth.*

Introduction

Among the worst hit industries due to COVID 19 pandemic is the travel and tourism industry. Since March 2020, the US travel industry has witnessed a cumulative loss of around $ 386 billion till the week ending 19 September, 2020.[1] According to the World Tourism Organization (UNWTO), with international arrivals dropping by 65 percent during the first half of 2020, it would almost take around 2.5 years to 4 years for the tourist arrivals to return to the level to that of 2019[2]. Closure of vital air routes, lock downs in various parts of the world, disruption in air and sea traffic accompanied by unwillingness for travel among people due to the pandemic has virtually led to a collapse of stock market all over the world. With obvious fall in share prices of some of the worst hit companies, merger deals have also been impacted, resulting in termination or revaluation of some of the merger and acquisition deals. One such deal which fell apart in the coronavirus pandemic due to the renegotiation and pressure of revaluation is the Ebix Yatra merger deal, announced last year in July 17, 2019.

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[1] https://www.ustravel.org/toolkit/covid-19-travel-industry-research

[2] https://www.unwto.org/news/international-tourist-numbers-down-65-in-first-half-of-2020-unwto-reports

An Insight into the Deal

On 17th July, 2019, US based Ebix Inc. announced to have entered into definitive agreement to acquire Yatra Online Inc. via merger for $338 million in an all stock deal. Each share of Yatra was to be valued at $4.90 per share, which was at a premium of 32 percent of the Yatra's closing price as on March 8, 2019. The rationale of the deal was to strengthen its position in India's travel and air ticketing industry through the acquisition on Yatra.com, the Indian subsidiary of Yatra Online Inc.

However, due to the fall in share price of Yatra Online from $4.39 when it was struck to $1.30 in May 2020, there were lots of pressure from the shareholders' of Ebix to terminate the deal or adjust the exchange value of the shares in light of the prevailing value of Yatra share price. The outside date of the merger agreement between Ebix and Yatra was extended to June 4, 2020, after which the agreement provided rights to terminate the contract by either of the parties. On failure of both the parties to agree to the amended merger terms till the outside date of the merger, the deal was terminated by Yatra on June 5, 2020.

Objectives of the Study

This study aims to:

- Analyze the impact of COVID 19 on mergers and acquisitions in travel industry with reference to Ebix Yatra merger
- Study the impact of the initial announcement of merger between Yatra Online Inc. and Ebix Inc. on the shareholders wealth.
- Analyze the impact on the shareholders wealth when the deal was announced to have been terminated by Yatra.

Impact of COVID 19 on mergers and acquisitions in travel industry around the world

The COVID 19 pandemic has brought in unprecedented challenges to the hospitality industry with no immediate sign of recovery to the pre-pandemic level as more than 50 percent of the customers are neither planning to travel shortly nor are willing to stay at hotels, even after the travel restrictions are lifted (Gursoy D. & Christina G. Chi, 2020). Digital inequalities in tourism business further increases vulnerability to COVID 19 thereby enabling the large digitally sound firms to survive post COVID and withstand the challenges posed by it; while at the same time vulnerability to COVID 19 also increases the digital divide and inequalities among various players of tourism industry (like large firms with greater liquidity and technological readiness are less vulnerable to COVID 19) (Sigala M. 2020). Acquisition fosters growth of an organization when made carefully and wisely (Chatterjee 2019). However, COVID 19 pandemic has reduced the mergers and acquisition agreement signed across the world, especially in the travel industry. Total M&A deals across the world in the travel and leisure industry in quarter 2 of 2020 had been worth £3.64 billion, which was 80.4 percent less than the value of the average deals over the previous four quarters, which totalled to $18.58 billion.[1] Some of the deals announced earlier also faced the pressure of revaluation or threat of termination. The recent termination of the Ebix Yatra acquisition deal is an instance showing a negative impact of the pandemic on mergers and acquisitions, especially when such deals are to be financed completely in stocks. In general, financing acquisitions through cash deals are preferred by shareholders and market reactions are positive for M&A financed in cash and negative for the ones financed through stock (Rani N., Yadav S. and Jain P.K, 2015).

There was already a tremendous pressure on Ebix by its shareholders' to renegotiate the deal due to the drastic fall in share price of Yatra Online in the weight of the COVID 19 pandemic. The valuation of the share price of Yatra had come down by almost 193 percent from $4.39 when the agreement was originally signed to $1.50 after the COVID 19 crisis that impacted the travel industry across the globe drastically.

Data and Methodology

Event study methodology has been used to analyze the impact of the acquisition on the value of both the entities. The basis of event study is to assess changes in stock prices prior to and after the merger announcement. Given rationality in the marketplace, the effect of an event will be reflected immediately in the security prices Hence the economic impact of an event can be analyzed by studying

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[1] https://www.eturbonews.com/578443/global-tourism-industry-merger-and-acquisition-deals-total-3-64-billion-in-q2-2020/

the security prices over a relatively short period of time. (MacKinley,1997). Thus a change in equity value of a firm as measured by stock market reaction to an announcement of M&A may be considered as a measure of future discounted profits that are expected to be generated on account of the announced merger (Duso, Gugler, & Yurtoglu, 2010).

An abnormal return is defined as the actual return of a stock less than normal return. Market model, which is the most widely used model for calculating normal returns, has been used in our study.

An estimation window of 200 days has been used to calculate the firm's beta and an event window of -20 to +20 days have been taken into consideration. According to Fama, Fisher, Jensen, and Roll (1969), the event day may not be certain and hence it is advisable to consider abnormal return which might appear around the event days in interval known as event window. Hence, in our study, the actual return is measured over a period of 5 days (-2,+2), 6 days (-2, +3), 7 days (-3, 3), 21 days (-10,+10), 30 days (-9, +20) and 41 days (-20,+20) day event window, considering the date of the announcement of merger as day 0 (following Brown and Warner, 1980; 1985). Event window considers the period of possible leakage on information before the announcement and the period for possible stock price reactions after the announcement. Hence we have used a 5, 6 and 7 days event window for assessing the reactions for a very short period, and 21 days, 30 days and 41 days event period for comparatively longer periods.

The daily adjusted closing price of Ebix Inc., Yatra Online Inc. and daily adjusted closing index of NASDAQ, where the stocks are enlisted, have been collected from yahoo finance. Other relevant information related to the merger were obtained from various websites, newspapers, reports, journals, and other published sources.

The expected return from the stock has been calculated by running the following regression:

$E(R) = \alpha + \beta.R_m + e_{it}$

where:

R_m is the return on a market index, which is the NASDAQ index for our study

α measures the mean return of the stock over the period not explained by the market,

β (beta coefficient) measures the sensitivity of the stock w.r.t to the market

e_{it} is a statistical error term, $\Sigma\ e_{it}=0$.

The daily abnormal return is then calculated by deducting the normal return from the actual return. T-test, which divides the abnormal returns through the mean root square of the error of regression, has then been performed to see if the abnormal return so calculated is statistically significant. Further, Cumulative abnormal return (CAR) for the event window period has been calculated and t-test has been performed to check the significance.

Results and Analysis

Analysis of the shareholders' wealth on announcement of the merger on 17 July 2019

When the merger was originally announced on 17 July, 2019, it was observed that the share price of Ebix decreased by 6.69 percent, which was statistically significant at 5 percent level of significance, showing a negative reaction on part of the shareholders. Further, it was observed that the cumulative abnormal return (CAR) over the 5 day (-2, +2) window period, 6 day window period (-2, +3), 7 day (-3,+3) window period, 21 day (-10,+10) window period, 30 day (-9,+20) and 41 day (-20+20) window period were all negative, but not significant, showing that though the shareholders' did not take the merger news positively did not expect a much synergy from the merger.

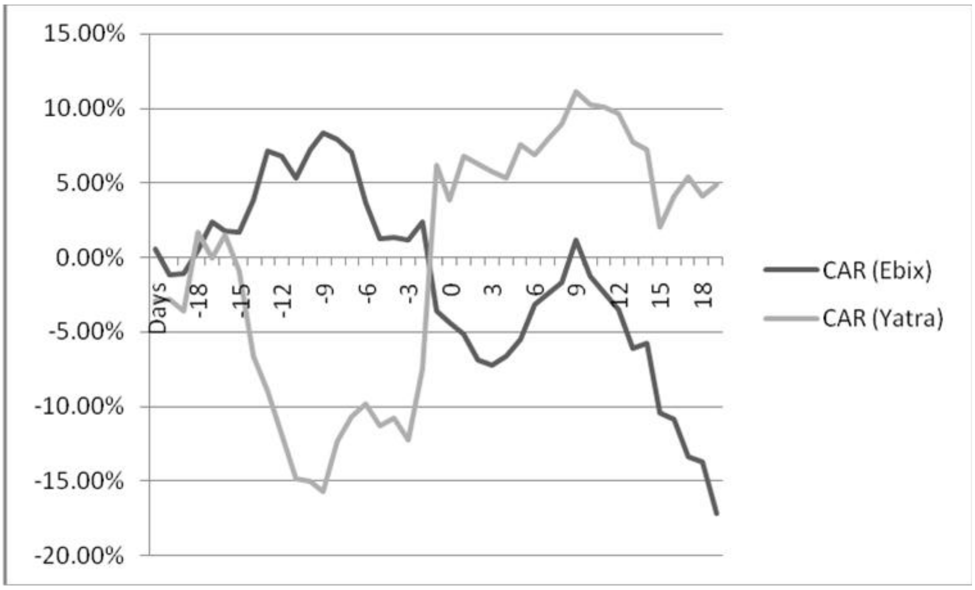
The shareholders of Yatra Online Inc. gained an abnormal return of 13.64 percent, which was statistically significant at 5 percent level of significance indicating that the shareholders of Yatra welcomed the news of the merger. The cumulative abnormal return in the event window of 5 day (-2, +2), 6 day (-2, +3), 7 day (-3,+3) was found to be positive and statistically significant, corroborating a positive reaction on part of the shareholders of Yatra. However, in the comparatively longer period consisting of the event window of 21 day (-10,+10) and 41 day (-20+20), the CAR was insignificantly positive.

Table 1: Cumulative Abnormal Return of Yatra and Ebix on Merger announcement

	CAR (Ebix)	CAR (Yatra)	t statistics (Ebix)	t statistics (Yatra)
5 days (-2,+2)	-0.065	0.176	-1.209	2.84 *
6 days (-2,+3)	-0.082	0.171	-1.402	2.52 *
7 days (-3,+3)	-0.082	0.176	-1.292	2.40 *
21 days(-10,+10)	-0.056	0.230	-0.511	1.82
30 (-9,+20)	-0.225	0.197	-1.721	1.30
41 days (-20,+20)	-0.172	0.049	-1.122	0.28

* Statistically significant at 5% level of significance

Chart showing cumulative abnormal return of Ebix and Yatra respectively on merger announcement



Termination Announcement

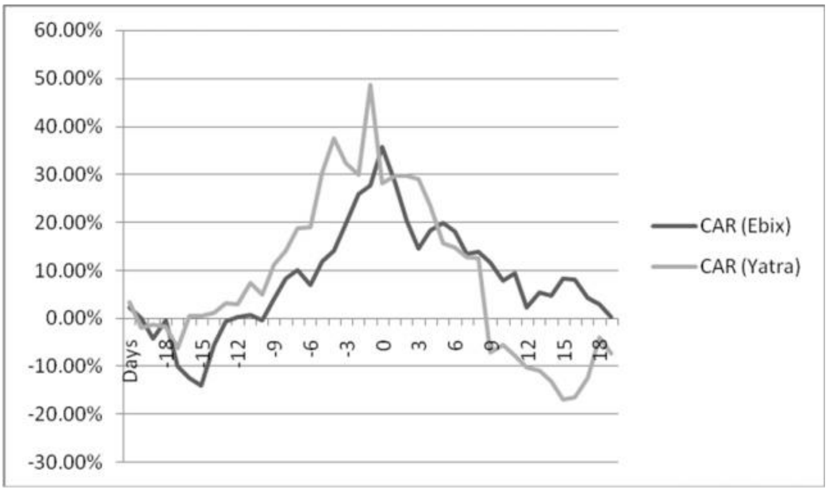
Since the announcement about the termination of deal was made late in the evening on 5th June 2020, the market actually started showing reaction on the very next day after opening, i.e on 6th June 2020. The shareholders of Ebix earned an abnormal return of 7.93 percent on the day following the announcement of termination of the deal, while the adjusted closing price of Ebix showed an increase of 9.31 percent. However, the cumulative abnormal return (CAR) in the event window period of 5 days (-2, +2), 6 days (-2, +3), 7 days (-3,+3), 21 days (-10,+10), 30 days (-9,+20) and 41 day (-20+20) were not significant, showing that there was no significant abnormal gain in the shareholders' wealth due to the announcement.

The share price of Yatra, however, plunged down by almost 20.33 percent on the day following the announcement, which is statistically significant at 5 percent significance level. The CAR for all the event window periods studied, however, showed that there was no significant abnormal loss for the shareholders' of Yatra, even though the CAR was negative across all the event windows. Thus the shareholders' initially and instantly reacted very negatively to the news of the termination, but in all the window period, the negative return calculated were insignificant showing that there was no significant loss of the shareholders' wealth.

Table 2: Cumulative Abnormal Return of Yatra and Ebix on Announcement of the termination of merger

CAR of Ebix and Yatra after termination of merger deal				
	CAR (Ebix)	CAR (Yatra)	t statistics (Ebix)	t statistics (Yatra)
5 days (-2,+2)	14.35%	-7.92%	1.31	-0.84
6 days (-2,+3)	6.25%	-7.87%	0.52	-0.77
7 days (-3,+3)	8.41%	-0.71%	0.65	-0.06
21 days(-10,+10)	11.33%	-10.08%	0.51	-0.52
30 days (-9,+20)	-0.45%	-14.76%	-0.02	-0.64
41 days (+20,-20)	0.24%	-7.33%	0.01	-0.27

Chart showing cumulative abnormal return of Ebix and Yatra respectively on merger termination announcement



Conclusion

COVID 19 has drastically reduced mergers and acquisitions in travel industry across the globe, and has also led to termination of the previously announced merger deals between Ebix Inc. and Yatra Online Inc. The shareholders of Ebix, who did not seem to welcome the merger news originally were now happy with the termination announcement of the deal.

Yatra shareholders, who gained significant positive abnormal return during the short event window period leading to an increase in shareholder's value on the announcement of the merger were unhappy with the termination news and reacted negatively leading to a significant fall of share price immediately following the day of announcement. However, the abnormal loss was not significant when cumulative abnormal return across the event windows were calculated, showing an insignificant wealth loss due to the announcement of the termination of the deal, especially in light of the already falling share price of Yatra due to the negative impact of COVID 19 which has affected adversely the entire travel industry.

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